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MODERN BUSINESS

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Modern Business

A SERIES OF TEXTS PREPARED AS
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COURSE AND SERVICE OF THE
ALEXANDER HAMILTON
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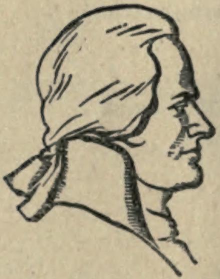

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MARKETING METHODS

BY

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and Finance

MODERN BUSINESS

VOLUME 5

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PREFACE

The problem of marketing must be solved by every successful business enterprise. In all businesses the profits ultimately depend on the ability to sell goods or services advantageously. A trading industry has only two phases, buying and selling; no matter how closely and carefully it may buy, it must finally look for its profits to the development of effective and economical methods of selling. A factory may possess every facility for maximum production at minimum cost, but unless the selling methods are carefully designed to meet the peculiar requirements of the product and of the market, the business cannot be conducted at a profit. The professional man and the business house, dealing chiefly in services instead of goods, likewise find the basis of profit largely in the ability to get in touch with those who need what they have to offer and in satisfying that need in the most satisfactory manner. Marketing problems are universal in business, and no one in any commercial activity can afford to ignore them.

This Text deals with the marketing of manufactured goods. It is concerned chiefly with the various methods of getting goods from the manufacturer to the consumer, and with the many problems arising from the complicated trade relations of modern commerce.

In the series of Modern Business Texts the subject of selling is logically divided into its parts, and presented in the following order: First, the problems that lie behind every campaign are discussed in the present Text on "Marketing Methods." Then the two different expressions of the selling idea, advertising and salesmanship, are presented in separate Texts. Later, general principles of salesmanship are exemplified in the Text on "Business Correspondence"; the specific application of selling principles to wholesale and retail establishments is shown in a Text on "Merchandising"; and finally, the marketing of raw materials is considered in the Text on "The Exchanges and Speculation." These Texts combined and in their proper order present a complete and logical view of the universally important subject of selling.

RALPH STARR BUTLER.

New York.

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MARKETING METHODS

CHAPTER I

THE FIELD OF MARKETING METHODS

1. *Two parts of a campaign.*—When a sales campaign is launched the men toward whom it is directed may feel its influence in two ways. If the seller takes advantage of all possible methods of appealing to the market, the people who compose the market are conscious of two different kinds of appeals, one the appeal of personal salesmanship, and the other that of advertising. These two expressions of the selling idea are the tangible results of the plans the seller has made to market his goods.

2. *Relation of salesmanship and advertising.*—Personal salesmanship and advertising are the only ways in which anything can be sold. In business, personal salesmanship is the attempt to promote the sale of goods or services by direct solicitation of one buying unit or one individual at a time. Advertising is the attempt to do the same thing but by the solicitation of more than one buying unit or more than one individual at a time. Personal salesmanship is the attempt to influence the individual, while advertising

is the attempt to influence the mass. Whether one or both of these methods of selling are used, the seller must make careful plans for them. He must give much thought, for instance, to the selection, training and supervision of an effective force of salesmen; similarly, he must pay careful attention to the technique of advertising—the organization of the advertising department, the determination of an advertising policy, the writing and placing of advertisements, the preparation of supplementary advertising aids, the recording of results, and so on. The greater part of this planning is hidden from the public; the consumer feels the influence of the salesmen only after they have been selected and trained, and the advertisements are realities to him only after they have been planned, written and placed.

3. *Plan back of the campaign.*—There is much more to a sales campaign than the consumer sees. Back of the effective selling talk of the salesmen and back of the vigorous message of the advertisements there is a world of planning, study and thought without which the campaign could never be successful and in fact could not even start. Much of this preliminary planning is concerned specifically either with personal salesmanship or with advertising—it is concerned, for instance, with those activities that have been listed in the preceding paragraph.

Back of these things there is still another group of considerations to be studied—a tremendously important group of problems that must be solved by everyone who has something to market before he decides to employ salesmen or to utilize the force of advertising. In other words, before a salesman has been hired or before a stroke of work has been done in the advertising department, the promoter of the business must have evolved a *plan behind the campaign*—he must have solved a hundred difficult problems upon which depend his selection of advertising or personal salesmanship, or both, as suitable marketing tools, his selection of trade channels, and his decision to use established methods of reaching the market or to hew out some new road between distributor and consumer. It is with this plan behind the campaign that we are to deal—the field where personal salesmanship and advertising meet, the field of marketing problems that do not pertain exclusively to either one of the two expressions of the selling idea, but that lie behind both.

The activities of a marketing campaign may be compared to those of a theater. The audience in a theater is aware only of the actors and the scenery, which may roughly be compared with personal salesmanship and with advertising respectively. Back of the scenes much takes place that the audience does not see, but all that goes on there is concerned immediately with the work of the actors or with setting up the scenery. In the same way, behind the scenes in a sales campaign there is much that the public does not see—the hiring and training of salesmen, and the planning, writing and placing of the advertisements.

This activity behind the scenes is not the beginning either of the performance or of the campaign. The play does not start with the scene shifting or with the preparations of the actors. It starts much farther back, in the mind of the great producer—the man who knows audiences, who knows the stage and its technique, who knows actors and how to handle them, who knows competition, who knows public taste, who is able to study, appraise, test and weigh all the factors that go to make up theatrical success or failure, and who, out of careful study and wide experience, is able to shape the complicated tools of his craft into what finally takes form as the smoothly running play that the public sees.

In the same way the promoter of the sales campaign must have solved many problems prior even to the preliminary activity of the sales department and of the advertising department. He must have studied the campaign *as a whole* with an unprejudiced eye on all its parts. He must have studied also many facts about the product itself, about the market and about methods of reaching the market. If he has not done so the campaign is not a planned campaign at all; it is merely a patchwork, based on guesses and hastily formed opinions. To deserve the name of campaign, it must be planned in advance by someone who sees the relation of all its possible parts, and who has carefully analyzed everything that can reasonably be foreseen.

4. *What marketing methods include.*—No word in

general use indicates all the activities that are included in the complete sales campaign. The word *selling* might properly include everything that is done by the man who has anything to dispose of in a commercial way. But in general usage this word is often incorrectly restricted in its meaning to personal salesmanship only. In its stead the word *marketing* is gradually coming into popular use to apply to the distributing campaign generally. Some advanced business houses have officials called marketing managers, who direct both the salesmen and the advertising. The word is a good one and we shall use it. The term *marketing methods* includes everything done to influence sales. In these chapters, however, the study of marketing methods will exclude the consideration of the technique of advertising and the technique of salesmanship, and be devoted to those sales considerations that must receive attention before either salesmanship or advertising is started on its mission of influencing the market.

5. *How salesmanship and advertising work together.*—One result of a study of marketing methods is a realization of the single purpose of all selling activities. Unfortunately the partisans of personal salesmanship and the partisans of advertising have at times attempted to set up a wall between their respective methods of building business. We hear of lack of sympathy between sales managers and advertising managers, of salesmen who have little use for advertising, and of advertising men who forget that

they are salesmen. Worst of all, occasionally a so-called advertising campaign is put forth by a manufacturer as something distinct from the sales campaign of the same company. This failure properly to link up salesmanship and advertising is not so general as it used to be, but there is still enough of it to demand warnings against it. As long as the work of the personal salesman is studied only as an art by itself, and as long as the work of the advertising man is similarly isolated and studied as if it had no relation to its complementary method of sales building, there will continue to be misunderstanding of the oneness of all marketing procedure.

6. *Why study marketing methods?*—The need of business is for executives who can get back of the technique of making sales—who can investigate, analyze, weigh and understand basic market conditions—who, on the foundation of their broad-minded seeking after facts, can construct a sales-making campaign that will use one or both of the two selling methods as conditions may demand, and who can weld them both into a common weapon for competitive offense. A study of marketing methods is essential in the training of such men.

7. *Study of trade relations.*—In the first part of our study of marketing methods we shall take up those factors in trade that carry manufactured goods to the consumer. We shall consider, among other things, the place of the middleman in the distributing system, make a study of the various kinds of retailers

and their changing relations, and analyze the jobber and his status. This part of the text should be of value to the manufacturer, because unless he has studied the live problems of trade relations, he cannot intelligently select trade channels or direct any of his selling effort. It should be of value to the jobber who wants to strengthen his position by finding the facts and adjusting himself to them. And it should be of value to the retailer who is daily confronted with problems involving his relations to his sources of supply, and who must base his whole business development on the right answers to questions about national advertising, mail-order and chain-store competition, branded goods, private brands and similar developments of modern business.

8. *Actual campaign.*—The study of trade relations is the most important thing in preparing for a marketing campaign, and naturally occupies the larger space in this treatment. When a manufacturer has given careful consideration to all the various factors that he may use in marketing his product, he studies his product and his market, and then selects the trade channels and the selling methods that seem most likely to result in maximum sales at minimum expense. These considerations will occupy us in the later portion of the Text which will also deal with special problems in planning the campaign, such as exclusive agencies, price maintenance and the costs of competitive methods of selling. The point of view is chiefly that of the manufacturer, since the special

interests of other distributors are considered in a later Text. Nevertheless, the principles discussed are basic in all selling, and are as suggestive and important to the retailer, jobber, agent and broker as they are to the man who both manufactures his goods and sells them.

REVIEW

In what important way are personal salesmanship and advertising alike? What is the essential point of difference?

What is included in the plan behind the campaign?

What part has a study of trade relations in preparing for any selling campaign?

What is the relation of personal salesmanship and of advertising to the plan behind the campaign?

CHAPTER II

DEVELOPMENT OF MODERN MARKETING

1. *Period of no exchange.*—We can understand modern marketing only by knowing the conditions out of which it has grown. From the standpoint of marketing there have been three periods in the world's commercial history. The first was the period of no exchange. Each family was practically a self-sufficient economic unit. There was no trade because there was nothing to exchange. Man's wants were few, and, such as they were, he satisfied them by direct effort. Each man did his own hunting, his own fishing, his own tilling of the soil and his own crude manufacturing. There was no specialization in industry. As a characteristic stage of industry, this period probably disappeared long before the beginning of historical times, and yet we still find an echo of it in some parts of the United States. The isolated frontier families who a generation and more ago founded the present thriving communities of our newer states, were in many instances obliged to live under such conditions; and even today some of the mountaineers of the South have progressed little beyond them. Nevertheless, the lack of specialization and the absence of exchange of this early period are encountered only rarely in modern business.

2. *Period of direct exchange, and its survivals.*—The second period may be called the period of direct exchange. Limited specialization appeared. One man devoted himself perhaps mainly to hunting; another to fishing, another to weaving, still another to agriculture. The advantages of concentrated effort on one activity were dimly recognized, and we find the various members of the community each doing chiefly the kind of work for which he was best fitted or to which he was most attracted. As a result of this limited specialization, some exchange became necessary. The man who devoted himself primarily to the raising of sheep called upon the metal worker to supply him with such manufactured articles as he might need, and the man who was chiefly a weaver went to the sheep raiser for his supply of raw material. The exchanges were carried on directly—the producer of one commodity exchanged it directly with the producer of another. Middlemen had not appeared. There was no necessity for the highly complicated market organization that we have today.

Direct exchange is not wholly a thing of the past. Business men who sell chiefly services, either alone or in connection with goods—merchant tailors, custom shoemakers, blacksmiths, for instance—must usually deal directly with those who utilize their services. There are, too, many enterprises manufacturing a great variety of goods that elect the method of direct dealing with consumers in preference to any other marketing plan. Direct exchange between producer and consumer is a common fact in modern marketing. Some people contend that it is the only economic method, and there are many movements afoot to increase its use in all kinds of business activities. Nevertheless, direct exchange is not the characteristic method of twentieth century selling. The overwhelming majority of the many things that the consumer buys to eat, to wear and to use come to him not directly from the manufacturer, but thru a series of one or more middlemen.

3. *Period of indirect exchange.*—The third, and present, period may be called the period of indirect exchange. It is the period of the middleman. There are many reasons for the change from the second to the third period. The following are suggestive:

4. *Increased specialization in industry.*—Few people today are engaged either directly or indirectly in the production of more than one article or more than one group of allied articles. General production such as was engaged in on the old-fashioned farm, is no longer typical. Nearly everyone must buy from others most of the things he consumes. Ordinarily he cannot do this directly. He is too busy working at his own specialty to spend much time hunting around for the many different manufacturers of the large number of things he must buy; if nothing else, the necessity of saving time demands some clearing-house arrangement of middlemen which will help him to find what he wants. For the manufacturer as

well as for the consumer, there is a necessity for middlemen. The manufacturer is frequently a specialist in manufacturing alone, without either the training or the means to devote himself to the search for the market for his goods. Consequently, he is often glad to use the services of a specialist in marketing.

Specialization among individuals is not the chief cause of the rise of the middlemen. Middlemen have become increasingly necessary with the development of community specialization. Pittsburgh makes iron and steel products; Danbury makes hats; Troy makes collars and shirts; Gloversville makes gloves; Glens Falls makes paper bags and boxes; the Dakotas grow wheat; California and Florida grow fruit; the South grows cotton; Idaho and Washington grow apples; and the list might be continued indefinitely. It is this community specialization that is most largely responsible for indirect exchange. One community cannot exchange its specialized product directly for the specialized products of almost countless other communities. Such a situation is inconceivable; no machinery has ever been devised to realize it. Some clearing-house arrangement is necessary to market the products of one community and to bring to it the products of others.

5. *Large-scale production.*—As a result partly of the discovery and refinement of machine power, large-scale production characterizes present industry; this, in turn, has been an important factor in necessitating the indirect exchange of manufactured prod-

ucts. A soap manufacturer began business by purchasing his raw material at the back-doors of the town, and then delivering his finished product to individual buyers in a wheelbarrow. As his business grew in size he did not have time to sell his increasing product in this way, and the employment of helpers to make individual five-cent sales of soap would have bankrupted him. He was forced to use the established middleman—the retail stores—and later to ask the aid also of jobbers. It is inconceivable that twenty million dollars' worth of soap could be sold yearly in direct sales to consumers. Large-scale production ordinarily demands the middleman.

6. *Overlapping of the periods.*—It is not to be understood that the characteristics of the third commercial period are universal. Certainly, complete specialization is not universal, and just as certainly all the goods of the world are not exchanged indirectly. Yet probably ninety per cent of them are so exchanged. Regardless of any tendency to eliminate unnecessary factors in marketing, and regardless of many striking present-day instances of successful direct exchange, the present system is characterized by relatively complete specialization and by the exchange of goods by indirect means.

7. *Economic basis of modern marketing.*—This brief historical survey shows that marketing procedure and the relations of trade factors are not things that can be overturned in a night or by a mere legislative decree. They are founded deep in the indus-

trial needs of the times. The middleman is the outstanding figure in modern marketing, not because he has consciously set out to make a place for himself, nor because consumers have blindly permitted him to come between them and the manufacturers of the things they buy. He has been forced into existence, on the one hand, by the necessities of specialized and large-scale industry, and, on the other hand, by the necessities of consumers, equally specialized in their activities and constantly demanding more and more in the way of service which the distant manufacturer must usually rely upon the middlemen to give. If middlemen as a class are to be abolished, it can be done only by abolishing the conditions that brought them into existence.

8. *Selling problems versus manufacturing problems.*—In the first two periods of industry, selling problems gave mankind little concern. In the first period they did not exist and in the second they were relatively simple. The problems of getting goods from the factory to consumers grew out of indirect exchange and the industrial conditions on which indirect exchange is founded. Problems of competition, to be sure, would be present even without indirect exchange. At least coordinate with the problems of competition in any business, however, and often overshadowing them, are those which arise from the relations of the many factors in the chain of distribution to be considered in any selling scheme.

A generation ago manufacturing was the hardest problem in business. Today selling often takes this place. Science and standardization have gone so far that almost any manufacturing riddle may be unraveled when brains and money are concentrated on it. This is because there are two factors in manufacturing—the machine factor and the human factor—and the former can be almost absolutely controlled. In marketing there is no machine factor. There is only the human element, and no one has yet devised a workable plan to harness human nature and make it act in definitely predetermined ways. It is said that ninety-five per cent of all business problems are selling problems. Whether this is true or not, no one will deny that selling problems are enormous; and it is certainly true that their most complicated phase is the relation of trade factors arising out of the characteristic indirect exchange of modern industry.

9. *Who is a middleman?*—Middlemen have been the chief target for criticism when fault is found with the present distributing system. Some of this fault-finding is justified; much of it, unjustified. When there is unjustified abuse of the middleman in general terms, it is often founded on a misunderstanding of what the word middleman means. Too often the term is applied exclusively to one small class of dealers; whereas, when used without qualification, it should include everyone who stands between the prime producer and the consumer, and who exacts a profit for the risk he runs, in addition to being paid for the cost of his services.

Suppose that A, a manufacturer, employs a salesman, B, to sell goods to the consumer, C. B is paid for the cost of his services; he is not a middleman, because there is no element of profit in the compensation he receives. He is an employe and not an independent business man. Suppose, however, that A employs no salesmen. On the contrary, he utilizes the services of D, an independent dealer, who agrees to stand between A and C in the distribution of A's goods. The actual time that D puts in must be paid for, but A must also pay him enough to permit him to take a profit to compensate him for the risk he runs in investing his capital in the business of distributing A's goods. The element of profit-taking makes D a middleman. The total payment to him, including cost of actual service and profit, may be less than the salary or commission paid to the regularly employed salesman. But small compensation does not make him less a middleman if he has assumed a risk and taken a profit.

10. *Greatest of the middlemen.*—This description of the middleman suggests the wide application of the word. Probably most people, when they think of the middleman, have in mind the jobber or wholesaler. The jobber, however, comprises only a small class. Equally unimportant, from the standpoint of total business, are brokers, commission men and other intermediaries of the same type. The greatest of all middlemen is the retailer. The total volume of his business probably exceeds the total business of all

other kinds of middlemen combined; he is the outstanding factor in our indirect distributing system; and his services, his functions, his characteristics must be considered whenever there is agitation for the elimination of middlemen as a class.

There is much loose talk about the eliminating of the middleman. It arises in part, as has already been said, from an improperly restricted use of the term, and in part, also, from a failure to understand what the middleman really does. We are not concerned at present with the specific functions of the several types of middlemen. The definite duties of retailers and of jobbers are to be considered in later chapters. Just now our concern is with all middlemen—with that inclusive group of many different kinds of distributors whom we must have in mind when we speak in general terms of the middleman.

11. *Middlemen and the manufacturer.*—Middlemen, as a class, are the mainstays of the market organization in the adjustment of supply to demand. Middlemen provide a clearing house for the facts of supply and demand. The producer is given a knowledge of demand thru the agency of the people who stand between him and the final market. The manufacturer in one part of the world, for instance, learns of the needs, desires and demands of people in other parts of the world by means of the chain of middlemen standing between him and them. In the market for manufactured goods there are many consumers for each producer, and the market must be organized

in such a way as to provide for the breaking up of the large production of the manufacturer into many small units which are to go to a large number of final buyers. Many manufacturers cannot feel the pulse of the final market at first hand, simply because of the very large number of people that make up the market. Middlemen do this for them.

12. *Middlemen and the consumer.*—The middleman does not help the manufacturer alone. He is of equal aid to the consumer. One important function of a clearing house for the facts of supply and demand is to carry to consumers a knowledge of supply. Suppose that there are no middlemen, and that you are a consumer wishing to buy salt. Where are you to buy it? Where is it produced? What manufacturer sells it? You might learn all this about salt after careful investigation, but would you have the time to make the same inquiry about all the other myriad things that you eat, wear and use? The middleman saves you this trouble. He brings together, in the retail store, most of the things that you need; in other words, he makes it unnecessary for you to obtain for yourself a knowledge of first-hand sources of supply.

13. *Aid in making prices.*—Finally, as a result of his function of bringing to the producer a knowledge of demand and of bringing to the consumer a knowledge of supply, the middleman is influential in helping to establish relatively uniform prices over comparatively large areas. A definite world value for wheat,

for instance, is due solely to the elaborate organization of the wheat market. It is of undoubted benefit, and the public profits in like manner from any organization that tends to establish standard prices for staple manufactured goods over wide sections of the country.

14. *Four kinds of utilities.*—We have said that the first great function of the middlemen who form the backbone of the market organization is to serve as a clearing house for the facts of supply and demand. Another great function is to create utilities. There are four kinds of utilities. *Elementary utility* is illustrated by the qualities in wheat which enable it to support life. *Form utility* is given to wheat when it is ground into flour in order to make it palatable. The fact that flour, possessing both elementary and form utility, is in the miller's warehouse in Minneapolis is of little interest to the man in New Orleans. If the flour is to have real utility for him, it must be brought to New Orleans. In other words, *place utility* must be added to it. Even with the addition of place utility, however, the citizen of New Orleans may not be able to utilize it. If it is brought to his city in May and he needs it in July, it is of no use to him unless it is stored by someone so that it will be available to satisfy July needs. In other words, the flour, even possessing elementary, form and place utility, cannot be used unless it also possesses *time utility*—the quality of being available for use when it is needed. With elementary and form utility the mar-

ket organization has nothing to do, but with place and time utility it has very much to do. Middlemen produce place and time utility; they carry things from the place where they are produced to the place where they are needed and put them at the disposal of consumers at the time when they are needed.

15. *Middleman as a producer.*—It is the fashion nowadays to decry present methods of marketing, to charge that middlemen are non-producers, and to proclaim a coming day of direct contact between all makers of goods and their ultimate consumers. The public often falsely ranks as producers only the manufacturers and those who furnish them with raw materials. The mere handler of goods, the transporter, the warehouseman, the dealer, is put on the defensive, and there are times when popular criticism of his activities conduces to a frame of mind in which he is not sure that the criticism is unjustified. It is well to inquire just who is a producer. The best definition of a producer is "one who creates utility." The definition says nothing about the kind of utility created; it certainly does not refer alone to the creation of elementary and form utility. If this is true, the men who grow the wheat and those who grind it into flour are not the only producers. If the creation of *time* and *place* utility is equally a characteristic of the producer, then we must also classify as producers those who transport the flour to the place where it is needed and those who hold it there until it is needed. A producer is one who creates *any* kind of utility.

The middleman in the great majority of cases is not a parasite; he is just as much a producer as the man who helps to produce raw materials or the man who changes their form. In his "Elements of Economics" Professor Richard T. Ely says:

> It has seemed to some, even among economists of an earlier time, that the farmer is more truly a producer than the manufacturer, and the manufacturer than the merchant; but careful thought discloses the fallacy of such a view. All industrial classes alike produce one or more of the four sorts of utility, and they do so by changing the relations of things in time or space. The farmer changes the position of grains of corn by dropping them into the earth. Then he removes the weeds and throws earth about the rising stalks. Thus man's arts in changing the relations and positions of things, aided by Nature's materials and forces, result in more corn for human consumption. The manufacturer in the same way changes the position of pieces of matter, and, aided by natural forces within and without the object of production, he causes the matter to assume a form that fits it, or better fits it, for human needs. So, too, the merchant changes the places of things from where they are less useful to where they are more useful, or holds them in one place until a change of external circumstances gives them greater utility. He is producing utilities as truly as is the farmer or the manufacturer.

16. *Some middlemen must go.*—Certainly it is not possible to defend all middlemen. There are many industries in which it is becoming more and more convenient to do without middlemen entirely. In other industries a smaller number of middlemen are being used. In the textile industries, for instance, a complex and almost unending chain of middlemen is being

simplified and shortened for the good of the business and the public as well; and in other businesses something similar is occurring. This does not, however, mean that the middleman is disappearing from commerce. To admit that a given type of middleman is unjustified and should be abolished is very far from admitting that all middlemen are bad and should go. It is entirely possible to defend *the middleman* without defending all representatives of the class. Some must go and others must change their functions; but as a class middlemen will continue to exist and to hold their place as the characteristic feature of modern marketing for many years to come.

17. *Middlemen and competition.*—The only thing that threatens the middleman is a change from a competitive to a monopolistic system of industry. Under a monopolistic system—either public or private—there would be only one concern or one group of closely allied concerns engaged in manufacturing any one commodity, and there would be only one distributing agency in each community. Naturally, manufacture would be on a very large scale and the distributing agency would do a very large business. While large scale production is one of the reasons for the rise of the middleman, after a certain point in size is reached the manufacturer, in many lines, at least, ceases to be wholly dependent on middlemen to distribute his products, and finds it more and more practicable to establish his own methods of reaching the market. Similarly, a large distributing station, for reasons to

appear in a later chapter, may be run jointly by a group of manufacturers, by the government, or by consumers operating cooperatively, without the intervention of middlemen to supply it with the things it sells. It is the manufacturing establishment of medium size that ordinarily cannot exist without the middleman in some form, and it is the small and medium sized independent retail establishment that, in many lines, finds the middleman an absolute necessity. These medium sized establishments which at the present time probably form the majority of manufacturing and retailing enterprises would not exist under a monopolistic system.

Under the present competitive system, however, the field is free to anyone who wants to start in business—who discovers a place where the creation of some kind of utility will mean comfort and convenience for the public and for which the public will be willing to pay. As long as the field is free we shall have some very large establishments that may get along without the middleman, but we shall also have a majority of smaller business units to whom the middleman is necessary. As long as we continue to operate on the basis of a fair field for all, and no favor, we shall continue to have the middleman, and no producer of time and place utility who performs a needed service, who does his work efficiently and who takes only an honest profit need apologize for his existence or fear that he is out of tune with the economic trend of the times.

REVIEW

What is your opinion of the popular contention that the only economically justified method of marketing is direct from manufacturer to consumer?

In your business is it true that the problems of marketing are more difficult of solution than the problems of manufacturing? Why?

How do you, personally, profit by the existence of middlemen?

If someone should contend that the middleman is not a producer, how would you prove he was wrong?

What is the connection, if any, between the continued existence of middlemen and the competitive system of industry?

CHAPTER III

TRADE FACTORS AND TRADE CHANNELS

1. *Trade factors in general.*—Trade factors are the cogs in the machinery of marketing. They are the things that have to be considered prior to the actual selling campaign by everyone who has anything to sell. They may be grouped under three heads: the goods that are to be sold, the market for the goods, and the methods of reaching the desired market.

2. *Study of the product.*—Every marketing campaign must be built on the characteristics of the goods to be sold. Wide variations in methods of marketing follow as a result of wide variations in the nature of the goods themselves. The methods of marketing dressed meat and the methods of marketing cotton cloth must be different. Variations in the nature of the market affect selling plans, but these variations are usually due to differences in the goods to be sold. Custom has great weight in determining selling methods; but customs, even though no longer logical, must have arisen originally for some good reason, and that reason, as far as selling methods are concerned, is almost invariably to be found in the characteristics of the goods that are being marketed.

The first thing the seller must do is to study the things he has to sell. There are a number of questions he must ask and answer before he spends money for salesmen or for advertising. For instance: Is the product one for which there is a ready demand, or must the demand be created? Is it a necessity or a luxury? Will it repeat? Is it subject to seasonal variations in demand? What are the peculiar conditions surrounding its production? What about raw material, cost of manufacture and ease of transportation? How much capital is available to market it? What are the inherent qualities of the article? Why should people purchase it? How can it be given individuality? What are the trade-mark and patent questions in connection with it? What are the marketing possibilities of the package? How much can it be sold for? How does it compare with competing articles? These questions are merely suggestive. Most of them apply, of course, chiefly to the manufacturer and his product. There are others, however, just as important that must be studied by the dealer. One of the chief criticisms of many retail and wholesale salesmen is that they do not *know* the goods they handle. The manufacturer does not often fail in this respect; but distributors are so often guilty of failure really to study the things they sell that it is necessary to place great emphasis on the importance of this factor in trade.

3. *Study of the market.*—Study of the market is fully as important as study of the product. Who are the people forming the natural market for the goods

you have to sell? Where do they live? How do they live? What are their buying habits? How much can they pay for a product like yours? Do they belong to a distinct class or do they include all classes? Are they city dwellers or country dwellers? Is the market local, state-wide, national, or international? What about competition? How many competitors have you? What is their relative strength? Who purchases your goods now? Is there an undeveloped market? What is the total consumption of goods of the kind you want to sell? What percentage of this consumption can you divert to your goods? Can the total consumption be increased? Can you get your share of the increased consumption?

These and many other questions must be answered before the successful campaign begins. It is true that they are not always asked and answered consciously. Marketing is not always a carefully considered activity. Many men have started to sell something without knowing the importance of questions such as these—without acquainting themselves with the facts that form the basis for the answers—and yet have blundered into success. This used to be done more frequently than it is today. Guessing and lack of foresight in entering upon a selling campaign did not in former days necessarily mean failure. The market was broad and eager, novelties were few and welcome, competition was relatively small; if the product was good, the seller could often gain his knowledge of the market thru expensive experience, and still be able to sell successfully. However, the golden days of easy marketing are gone. Unless he gives to the possible market the same careful consideration that he gives to the product, the man who today has something to sell is fairly certain to go under before he blunders upon the right market for his goods. The business cemetery is full of manufacturers who have tried to sell their goods to the wrong people, of jobbers who have failed to adjust themselves to rapidly changing conditions in their territories, and of retailers who have overstocked or bought the wrong goods because of lack of exact knowledge of what their market was and what it wanted.

4. *Reaching the market.*—The purpose of the distributor in studying the product and in studying the market is first, to discover the possibilities open to him, and second, to aid him in his solution of the problems relating to the third trade factor—the methods of reaching the desired market. All the previous study of the campaign leads up to the study of trade channels and marketing methods. Adding machines, for instance, are usually sold direct by the manufacturer to the consumer because the nature of the product is such that middlemen could not, or would not, give it sufficiently careful study to enable them to develop the necessary market. The farm papers are the chief mediums for mail-order advertisements because the market for mail-order houses is chiefly found in rural communities that are relatively inaccessible to completely stocked specialty stores. Heavy staples

like sugar, flour, etc., are usually sold thru jobbers because their bulk is too great to permit the average retailer to purchase in sufficient quantities to justify direct relations with the manufacturer. These examples illustrate the connection between the product, the market and the methods that are selected to reach the market. The three great trade factors are linked together. The study of any one of them alone leads the distributor to no result; the careful study of them all is likely to lead him to success.

5. *Trade channels.*—Trade channels are the routes along which goods pass on their way from the manufacturer to the final consumer. If the route is direct and without branches and intersections, we have the manufacturer-direct-to-consumer selling method. If there are several routes leading from the production center, and if each of these direct routes branches off at some distributing point where new routes radiate to the final markets, we have the selling method that utilizes one class of middlemen—possibly the manufacturer-retailer-consumer method, or the manufacturer-agent-consumer method. And if these branch routes, each in turn, come to smaller distributing centers where new routes reach out into the surrounding country, we have still another complication in our trade channels—the manufacturer-jobber-retailer-consumer selling method.

The problem of distribution is constantly becoming more difficult of solution. In former times trade channels were definitely established, and the manufacturer had little choice of selling methods. Each class of distributors occupied a fixed place in the chain of distribution, and there were but few attempts to open new lines of contact between the manufacturer and the final market. Competition was not so keen as it is today. Fewer people, proportionately, were engaged in mercantile pursuits. The business acumen of former industrial leaders was devoted to the exploitation of new countries rather than to the intensive development of a market as yet uncrowded. The power of advertising as a force in business was little appreciated, and it had scarcely begun to exercise its far-reaching influence on the long-established traditions of marketing. Under these conditions, the problem of selling was a comparatively simple one. The manufacturer had but to adopt the usual trade channels, and there was little tendency to question the necessity or the value of the services rendered by the distributor.

6. *New difficulties of marketing.*—Today conditions are altered. There is little respect for traditional methods. Every manufacturer and every distributor seeks the largest possible market at the least possible cost, and he consciously selects the trade channel and the selling methods that are best suited to his particular case, without regard to prevailing customs unless he deems them expedient or profitable. Intense competition makes it necessary for the man who has something to sell to cultivate relatively unim-

portant markets that he would have disdained in the old days, to regard with desire every profit that goes into the pocket of anyone who stands between him and the consumer, and to submit to searching analysis every process, every link in the chain of distribution, every method of marketing, in order that he may have the maximum advantage over his competitors in price, in service and in profits.

7. *Old chain of distribution.*—For many years many manufactured products passed thru a series of trade channels that were dictated by a market organization based on six stages. These stages were:

(1) Manufacturer,
(2) Commission merchant,
(3) Jobber,
(4) Wholesaler,
(5) Retailer,
(6) Consumer.

This traditional chain of distribution is not unknown today. In some of the textile trades, for instance, we still find all these links in the chain, and many more besides. There are so many steps in handling some kinds of textiles on their way from the manufacturer to the consumer that it is often difficult to trace and chart them. This condition, however, is not typical of modern marketing. Many circumstances have combined to obviate the former necessity for a long string of profit-taking middlemen. Advertising has brought the manufacturer and consumer close together; increased consumer demand for fresh styles has necessitated the shortening of the chain; quickened methods of transportation have rendered unnecessary the long, graduated series of warehousemen formerly needed in order to give the consumer the goods when he wanted them. These, and other developments, have operated in most industries to break down the traditional chain of distribution and to substitute for it one composed of fewer links.

8. *New chain of distribution.*—In modern distribution the commission merchants and brokers, so prominent in earlier marketing, have lost their old position of importance in many manufactured lines. There are notable exceptions, of course, but these two trade agents seem, in a large number of cases, to have been the first to feel the movement to simplify channels of trade for manufactured goods. The functions of the jobber and the wholesaler have also lost their distinctive features. The jobber and the wholesaler have practically been merged, and the two words are now used interchangeably.

There is no typical chain of modern distribution. Almost every industry has its own system of middlemen, and often the different units in the same industry vary widely in their methods of reaching the market. For instance, shoes are sold in large quantities thru chains of stores owned or controlled by the manufacturer; other manufacturers sell direct to independent retailers; while still others continue to utilize the traditional jobber-retailer method. In the grocery field, on the other hand, the traditional method is still the common one; probably ninety per cent of grocery specialties as well as bulk staples are sold by the manufacturer to the jobbers, each jobber in turn selling to many retailers. Even in groceries, however, there are many departures from this procedure. A few manufacturers sell direct to consumers; an increasing number leave out the jobber and deal only with the retailer; others sell first to agents or brokers, who later sell either to jobbers or to retailers or to both.

9. *Selling staple goods.*—Despite the many methods that are used to carry manufactured goods to consumers, it is possible to generalize regarding channels of trade, as far, at least, as four great staple lines are concerned. We have already said that probably ninety per cent of all groceries pass thru the manufacturer-jobber-retailer channel. The same thing is true of drug store lines, hardware and drygoods. In these four lines the typical method of selling is still the traditional one. The total trade in these goods is a very large proportion of total retail trade. Hence if we are to recognize any normal current in modern trade, it must be that which flows from the manufacturer to many jobbers, from each jobber to many retailers, and finally from each retailer to many consumers. It is true that many manufacturers do not follow this course—millions of dollars' worth of goods are sold direct to the consumer; immense corporations conduct manufacturing enterprises, and then sell the products of their factories thru great chains of retail stores owned by

themselves; hundreds of manufacturers have eliminated the jobber from their sales schemes. Nevertheless, in the distribution of the four great staples, groceries, drugs, hardware and dry-goods, as well as in the marketing of many other commodities, the manufacturer-jobber-retailer-consumer system is still strongly intrenched; and it is in the shifting relations among the four members of this chain of distribution that most of the complicated problems of modern marketing have their origin.

10. *Consumer.*—It is important to have definite ideas about each of the four normal links in the chain of distribution. The consumer, defined by the Century dictionary as "one who destroys the exchangeable value of a commodity by using it," buys goods for consumption and not to sell them again. Tho this definition is simple, the decision who is and who is not a consumer is not easy in every case. The retail grocer may hold that a hotel or a restaurant is a consumer, and that, as a consumer, it should buy its supplies from the retail dealer instead of from the jobber. The wholesale grocer, on the other hand, may maintain that the hotel is in reality a dealer because it sells, altho in somewhat altered form, most of the food that it buys. In general business usage, however, there is little confusion about the meaning of the term consumer; it means the ultimate consumer—the individual who uses the things he buys for himself, and who does not sell them again either in their original or in altered form.

11. *Retailer.*—The term retailer is derived from two words meaning "to cut again." It was originally applied to a class of middlemen who purchased cloth by the piece or in quantities and then cut off smaller amounts for sale to consumers. Speaking generally, the modern retailer is a distributor who buys goods to sell them again without change in form to buyers who are not dealers. He usually sells to consumers, but he may also sell to manufacturers. The phrase *without change in form* is an important part of the definition, since a man who buys goods and changes their form in any way before he sells them is to that extent a manufacturer and not a retailer. That his customers are *buyers who are not dealers* distinguishes the retailer from the jobber.

12. *Jobber.*—A jobber or wholesaler is one who buys, usually in quantities, for the purpose of selling the same goods without alteration, to other dealers. These dealers may be either other jobbers or retailers. When one who is otherwise a jobber sells goods to a consumer, so far as that particular transaction is concerned he ceases to be a jobber and becomes a retailer. We have already suggested that there was formerly a clear distinction between the function of the jobber and the wholesaler. The jobber bought "jobs" or odd lots, at particularly favorable prices, and disposed of them either to wholesalers or to retailers. Frequently, the jobber had no regularly established market, while ordinarily the wholesaler supplied a more or less permanent list of customers.

This distinction no longer exists in most lines of trade and the words jobber and wholesaler are usually employed interchangeably. Because jobber is the shorter word it is the more common, and we shall use it in preference to wholesaler.

13. *Manufacturer.*—A manufacturer expends labor upon raw materials or upon already manufactured parts so as to change them into something different in form or use. He may either buy or control the supply of things upon which he works. If he buys his material, he differs from a jobber or retailer in that he does not sell the things he buys exactly as he buys them. Each of the following may be considered a manufacturer:

(a) The farmer who raises wheat and puts the raw material on the market.

(b) The miller who purchases wheat and produces flour.

(c) The baker who purchases flour and uses it in the manufacture of bread.

The automobile manufacturer is no less a manufacturer if he purchases all his parts and simply assembles them, than he would be if he built the entire car from the raw material. A publisher is a manufacturer. The man who runs a cigar factory without helpers is as much a manufacturer as a great corporation like the American Tobacco Company.

The manufacturer who is important from the standpoint of marketing is a business unit in charge of the combined activities of producing form utility and of marketing goods. If any factory owner solves his sales problem by making arrangements to dispose of his entire product to some individual, or to some company that is to take the responsibility of marketing it, the factory owner has no immediate problem of distribution, and the agency that handles the products in the open market has to meet the problems that the manufacturer would otherwise have to face. This is not an unusual situation. There are sales companies that make a specialty of disposing of a factory's entire output, and in certain branches of the textile industry commission houses contract to distribute the entire output of the mills.

14. *Selling problems of dealers and manufacturers.*—In contrast with those of the manufacturer, the selling problems of the retailer and the jobber are comparatively simple. The retailer need give but little consideration to the kind of buyers to whom he can best appeal. He knows without any study that his field is in satisfying the wants of consumers. To be sure, within the consumer class there are many groups that he must study and select from before he begins business, but in general his chief problem is not to determine upon the proper market for his goods; it is mainly to find the best method of reaching the market that is naturally his. The same thing is true of the jobber. If he is to remain a jobber only, he must confine his sales to dealers, and usually those dealers are retailers. True, he must find the right retailers, but, like the retailer, his chief prob-

lem lies in selecting methods of reaching the market rather than in selecting the market itself.

With the manufacturer the case is different, however. His first, and often his greatest, problem is to decide whether to sell his goods to jobbers, to retailers, or consumers—whether to sell direct only to one, or to all, or to any combination of these classes. Only after this question is answered can he give consideration to the other problems having to do with methods of reaching the class to which he has decided to appeal. In general, the retailer and the jobber have one great group of problems—the selection of selling methods; while the manufacturer has two—the selection of trade channels as well as the selection of selling methods.

15. *Other aids in marketing.*—We have referred to the manufacturer, jobber, retailer and consumer as the normal terminals and intersecting points in modern channels of trade. There are, however, other factors whose services are sometimes utilized, even tho they may not be typical of the entire marketing field. The term *semi-jobber* is ordinarily applied to a dealer who sells both to dealers and to consumers. His activities are those of both the jobber and the retailer. In some lines of trade semi-jobbers are common. In many others, however, they are not regarded with favor either by manufacturers or by the so-called legitimate jobbers or retailers. The term *manufacturing jobber* is usually applied to one who is chiefly a jobber but who also sells goods

that he manufactures himself, or that someone else manufactures for him under his own label. His activities are both those of a manufacturer and of a jobber. We are to find that the rise of manufacturing jobbers has been the cause of many complications in trade relations.

16. *Agent.*—Commercially speaking, an *agent* is one who acts as the direct representative of a manufacturer, a jobber or a retailer, who is compensated on some other than a straight salary basis, and who, in the details of his activities, is not responsible to his principal. The line between certain kinds of salesmen working on a commission basis and sales agents is difficult to draw distinctly. The agent is an independent business man, often taking orders from his principal with respect to policy, profits, prices, terms of credit, etc., but yet retaining very large control over his own activities. Some of the additional characteristics of the agency relation may be noted. The agent usually sells by sample. Like the salaried employe of the principal, the agent binds the principal absolutely within the scope of his agency and does not assume individual liability for his acts. Goods shipped to the agent for delivery remain the property of the principal, who must bear all fire and other risks. The term agent is used very loosely in business. Sales managers are frequently incorrectly referred to as sales agents. Traveling salesmen are often agents in popular speech. Incorrect uses of the word should be avoided.

17. *Commission merchant.*—The commission merchant or commission man is one who receives goods on consignment from his clients (manufacturers, jobbers or retailers), sells them for what they will bring, and retains a part of the sales price as his commission. Goods are sent to him at his risk. Usually he has large discretion in the fixing of prices and terms, and is responsible for the payment of his customers' accounts. Commission merchants are found chiefly in white goods lines, grain, produce, cotton and chemicals. The term commission merchant, however, is often incorrectly applied even in these lines. Many men dealing in produce, for instance, altho formerly strictly commission merchants, now have their own buyers in the country and buy outright the produce they are to sell again. Altho often incorrectly called commission men, they are either jobbers or retailers, as they sell either to dealers or to consumers.

18. *Broker.*—The term *broker* is applied to dealers trading on a commission basis in many different lines of products, which oftentimes have varying trade usages. In the mercantile world brokers are frequently found, but they handle normally a much smaller proportion of the world's manufactured goods than of raw products.

REVIEW

What are meant by trade factors? What are some of the more important things to be studied in connection with each one?

In the line of business with which you are most familiar what are the normal trade channels? Could this normal chain of distribution be shortened advantageously?

In what fundamental way does the jobber differ from the retailer? From the manufacturer?

The A. T. Brown Company does business on its own capital, pays its own employes and expenses, and operates under its own name. It has the state "agency" for a well-known brand of canned soups. It sells direct to jobbers, who, in turn, supply the retailers. The manufacturer of the soup does no business direct in the state, selling its goods there only through the Brown Company. The goods are sent to the Brown Company, on their order, and billed at the regular wholesale price, less a certain discount which represents the Brown Company's gross compensation. The Brown Company must pay for the shipments in thirty days, no matter whether it has resold them in that time or not. The A. T. Brown Company designates itself as a "merchandise broker." Is the title correctly applied?

CHAPTER IV

SELLING TO THE CONSUMER

1. *Magnitude of retailing.*—The selling of goods at retail is the most common fact in business. The word business itself to many people carries with it only the idea of retail merchandising. A generation or so ago if a boy was to "go into business," about the only outlet for his ambitions was the country general store or the city retail establishment. This condition has changed, since today business includes many activities that were scarcely thought of by our grandfathers. Yet the distribution of goods at retail remains one of the greatest businesses in the world. There are said to be three-quarters of a million retail stores in the United States. Add to this enormous total the number of strictly mail-order establishments and the great number of manufacturers who market their products directly to the consumer, and we shall certainly have close to a million business establishments engaged in selling goods to the ultimate consumer. Their activities affect all of us; we are vitally interested in what they do and how they do it. The greatest share of our earnings goes to them, and it is very much to our interest as consumers to study their problems, their methods and their possibilities,

and to find the true relation of the service they render to the price we pay them for it.

2. *Importance of the retailer.*—The problems of the retailer are as important to the jobber and the manufacturer as they are to the retailer himself. The jobber's business life depends upon the success of his retailer patrons; success for him may be measured largely by the extent to which he helps the retailer to market his wares. The manufacturer, too, in the great majority of cases, finds his ultimate market thru the doors of the retail store; and one of his greatest problems is to cooperate with the retailer to the end that both may give better service, sell more goods and make more profits. The retail merchant is nearest to the consumer. His activities must enter into every marketing problem whether his services are used or not; his methods and status are of interest to everyone who has anything to sell.

3. *Three general methods of selling at retail.*—There are three chief methods by which goods are sold at retail: (1) by personal solicitation thru salesmen or canvassers who call upon the consumer; (2) by the retail store; (3) by the mail-order method. The phrase "selling at retail" should not be confused with the word "retailer." We have defined a retailer as one who buys goods to sell them again without change in form to those who are not dealers. This is the accepted definition. But to sell at retail is simply to sell to the ultimate consumer. A manufacturer who sells his product directly to consumers is

selling at retail. This does not make him a retailer within the meaning of our definition, altho he is sometimes popularly thought of as a retailer, particularly if he reaches consumers thru his own stores. In view of the popular confusion in the terms it may seem futile to attempt to differentiate between selling at retail and being a retailer. The distinction is necessary, however, if we are to have a clear-cut understanding of the relative place and function of the manufacturer, the jobber and the retailer.

4. *Itinerant merchant.*—Before the development of town life, when people generally were able to satisfy most of their limited wants by direct barter with their neighbors, the itinerant merchant practically controlled such merchandising as existed outside of the few metropolitan centers. It is probable that there were traveling merchants before there were towns and this class of dealers may therefore be considered as the originators of the retail merchandising system. They went from tribe to tribe, and later from town to town and even from country to country, displaying their wares to any possible purchaser they might chance to meet.

5. *Peddler.*—There are three modern descendants of the ancient itinerant merchant. The first of these is the peddler, who still supplies out-of-the-way communities with many of the necessities of life. He carries his own stock of goods with him, calls on those who may be interested in his wares, and makes immediate delivery of the goods that are purchased. Al-

tho useful and important in a primitive state of society, such a method of distribution is unsuited to modern conditions except in unusual cases. Its one advantage is that the customer can purchase at his own door. He is saved the necessity of doing anything except pay the price and receive the goods. The business of an itinerant dealer must always be conducted on a small scale. Unless operated in connection with some other method of marketing, a peddler's business can never develop to any great extent, and, therefore, he can never seriously compete with distributors who are able to effect the economies that are always possible in large scale business.

6. *Canvasser.*—A second descendant of the itinerant merchant is the canvasser who solicits orders from house to house, but who does not carry his stock with him. An example of this type is the solicitor of orders for household appliances of various kinds. Manufacturers sometimes sell in this way because the nature of the thing to be sold may demand it. When aluminum cooking utensils were first introduced, probably no method would have been so successful in inducing housewives to abandon iron and granite ware for the new material as house-to-house solicitation. A subscription edition of a book could often not be largely sold if it were simply put on the shelves of a store, and sales were left to depend on advertising or on the voluntary demands by customers. Selling by means of personal solicitation of the consumer is appropriate when an article is so little

known that its merits must be presented personally to each prospective customer, and when printed advertising cannot be relied upon to create a demand.

There is another reason for using the canvasser. Some articles, even tho they do not come under the classification in the preceding paragraph, are nevertheless sold by canvassers. For instance, altho soap is usually sold in retail stores, some soap manufacturers sell their product thru house-to-house solicitors. The reason is expediency rather than necessity. Established retail channels may be loath to take on a new line that competes with goods already in stock; sales thru retail stores may be too small to permit of the desired large scale production; in some cases sales thru canvassers may yield a larger net return to the manufacturer than sales thru retail stores. These and other reasons may dictate direct selling even in the case of articles that are not barred from established retail channels.

Some exceedingly prosperous business houses have made a study of marketing thru canvassers and have built up national organizations of house-to-house solicitors. Publishers of books and maps, and manufacturers of stereoscopes, kitchen utensils and a great variety of other goods do an immense business of this sort chiefly in rural and semi-rural districts; and some mail-order houses, like the Larkin Company, for example, have used this method of selling to supplement their catalog business. Nevertheless its possibilities are limited. There is undoubtedly a popular prejudice against the house-to-house solicitor. His powers of salesmanship have so often been enlisted in the support of articles of doubtful merit that even the canvasser with a strictly reputable article to offer often finds his usefulness limited by reason of the common prejudice against his selling methods.

7. *Specialty salesmen.*—A third type of the dealer who takes his wares directly to the consumer may be termed, for lack of a better name, a specialty salesman. The difference between him and the house-to-house canvasser is one of degree and not of method. Instead of calling upon everybody, the specialty salesman carefully selects his prospective customers and centers his attention upon them. It seems a far cry from the persistent solicitor for "Lives of the Presidents" to the highly paid commercial ambassador who obtains a railroad's order for fifty thousand dollars' worth of supplies, but, as far as basic selling methods are concerned, the two types of salesmen must be placed in approximately the same class.

A specialty salesman, in the sense in which we use the term, usually handles a line that is of so technical or complicated a nature that it must be carefully explained to the consumer before he can be induced to purchase. An example is the cash register salesman. He has to prove first to the prospective purchaser that a cash register is necessary in the "prospect's" business, and then he often has to prove that his particular machine is preferable to any other. The problem of the life insurance salesman is similar. Sometimes an article that is originally introduced to consumers by specialty salesmen becomes so well known that it is later handled profitably thru the medium of regular retail stores. In other lines, however, the specialty salesmen are continued long after the public has become perfectly familiar with the article. This is usually the case when the demand is comparatively limited and the competition is severe. The typewriter business illustrates this condition.

In many instances no other selling method is possible than the direct contact with consumers by the use of salesmen to solicit business. Locomotives could not be sold in a retail store or by mail. It is equally obvious that little life insurance would be sold if every man who ought to carry insurance were left to discover his need himself and to call at the office of the agent on his own initiative. It should be remembered that advertising can do much to supplement the work of the salesman in this as in other fields. Speaking generally, very high-priced articles can probably be sold more successfully and economically by personal solicitation of the consumer than by any other method. In the case of low-priced articles, however, the method is undoubtedly expensive for the producer, and not infrequently increases appreciably the cost of goods to the consumer. A dealer entering upon a business in which this selling method is customary would ordinarily have to adopt the same method to get his share of the trade. There are many business houses, however, employing only store salesmen, assisted by effective advertising, that have competed successfully with other houses in the same line that relied solely on their outside salesmen. Under normal conditions it would be a mistake to inaugurate an expensive system of local and traveling salesmen to sell goods to consumers unless competitive conditions clearly demand such a procedure.

8. *Retail stores.*—The retail store is of almost equal historic importance with the itinerant merchant as a means of reaching the consumer. For many years before the development of town life and before the days of cheap and easy means of communication, the local shop practically controlled the distribution of goods at retail. Its advantages proved so remarkable that even the modern development of land and water transportation, the extraordinary growth of advertising and the resulting important changes in trade relations have scarcely affected its influence. Today the great mass of such staples as groceries, clothing, drugs, dry-goods, hardware, furniture, etc., are still marketed thru the retail store. Retail stores sell chiefly to consumers by "over-the-counter" methods. They may receive many orders by telephone, and usually they deliver a large proportion of the goods sold. Their delivery clerks may call upon the regular customers and solicit orders for the day, altho this expensive custom is being supplanted by the increasing use of the telephone. Retail merchants in certain rural districts stock up wagons with salable

merchandise and dispose of the load by making house-to-house calls upon the farmers in the neighborhood; and many retail stores combine selling by mail with the ordinary distribution thru regular store channels. Yet if a retail establishment has facilities for dealing directly and personally with customers who come to the store to buy, it should be classed as a retail store, no matter how many other retail selling methods it may use in combination with its over-the-counter activities.

9. *Specialty stores.*—The first retail stores were probably what we now call specialty stores; each store dealt in only one kind of goods or in two or more closely allied lines. These stores grew up in the towns. In ancient and medieval times there was little country life as we know it now; the population of almost all countries was congregated in towns or around castles, because the unsettled conditions of the times made isolated residences unsafe. The towns that were of sufficient size harbored enough little specialty shops to satisfy most of the demands of the inhabitants; and the smaller places that could not support a complete group of specialty shops in all lines, depended on itinerant merchants for what their own stores could not supply.

With the increased safety of more settled times the country outside of the towns became more thickly settled. For each group of country dwellers there was some center, a cross-roads, perhaps, or a small town. Here there might be a few specialty stores, but ordinarily the population tributary to the small trading center was not large enough to support specialty shops in all lines. The itinerant merchants declined in importance, and there was need for some method of supplying all the wants of the country communities.

10. *General stores.*—Out of this need developed the country general store. In a small country community there is not enough business to support a separate grocer, a separate dry-goods merchant, a separate jeweler, a separate hardware dealer, and so on, but there is usually more than enough business to provide a living for one dealer handling all these lines and many others besides. We do not know when the general store first appeared, but it certainly was a much later development than the small one-line specialty shop. In the United States the specialty store and the general store seem to have grown up together. In earliest colonial times we find them both, and both have continued in their respective fields to the present time.

11. *Department stores.*—A third form of retail store is the department store. In essentials it is a general store on a large scale. It is not a country but a city institution, because only in the city is sufficient trade found to support it. Probably the department store developed first in France, altho the United States and other countries were quick to adopt it. Today it is found almost everywhere in the civilized world, and its rapid growth, its problems.

and its possibilities have been potent in breaking down old trade walls and in complicating the market situation.

Some of the reasons for the popularity of the department store are the following: (1) Possibility of economies in operation. Many so-called overhead expenses of a retail store necessitating a certain minimum expenditure for a store of any size, are not, theoretically, increased proportionately by an increase in the business of the establishment. Rent, delivery expenses, advertising and managerial salaries are sometimes used as illustrations of this fact. It is not clear that department store selling expenses are now lower than selling expenses of first-class specialty stores; but no doubt the expected possibility of economies in operation was one of the reasons for the early development of the department store form of store organization. (2) Convenience to the public. It is a convenience for a shopper to be able to purchase many kinds of goods at one store; hence a department store is expected to draw trade if it is to show large sales. (3) From the two foregoing reasons for the popularity of the department store arises the third, the possibility of doing a large business on a comparatively small capital. Greater profits, of course, are the ultimate reason for the investment of capital in a department store instead of in a specialty store, and these profits are expected to result from the economies in operation, the large sales, the quick turns of stock, and the other profit-making factors which, theoretically at least, are characteristic of the department store.

12. *Two kinds of department stores.*—There are two distinct kinds of department stores. In one the separate departments are owned by separate individuals; the store is really but a single roof covering a collection of separately owned retail shops, the owners of which contribute to a common fund to pay for the store activities that serve them all in common, but retain individual control over the sales and profits of their respective departments. The other extreme is a store owned by one man, by a partnership, or by a corporation; employes are responsible to a certain extent for the separate departments, but the central office directs in considerable detail the activities of all the departments. Between these two extremes there are any number of variations. A common form in some parts of the country is a store with individual or corporate ownership, with possibly a majority of the departments owned by the central management, and others owned and controlled by other persons.

13. *Chain stores.*—Another form of retail store is the chain store. When properly applied the name refers to one of a group of stores all centrally owned and operated, or collectively owned and managed for the common benefit of all members of the group. Well-known examples are the Douglas and Regal shoe stores, the shops of the United Cigar Stores Company, the Woolworth five-and-ten-cent stores, the Huyler candy stores, the Great Atlantic and Pa-

cific Tea Company with stores all over the country, and the local chains such as the James Butler stores in New York, and the Kroger Grocery and Baking Company, which started in Cincinnati and has now spread into neighboring cities. The term chain store is also frequently applied to a separately owned store which is the exclusive agent in a community for some nationally known line, when that line is very complete and makes up a large part of the stock of the store. The Rexall drug stores are a case in point; the owners of these stores own stock in the corporation manufacturing the Rexall line, but each store is usually separately owned and managed.

14. *Selling by mail.*—The third distinctive way of selling at retail is the mail-order method. Selling by mail is a recent development. There could be no general use of this method until the mails were quick, cheap and sure—in other words, until the railroad was firmly established and generally used. Practically the whole great structure of mail-order business has been built up during the short period since about 1850. Its development has been astounding. There are no figures to show its present magnitude but we can get some suggestion of its size and importance from the fact that a single mail-order house in Chicago does an annual business of well over a hundred million dollars.

Selling by mail to the ultimate consumer is carried on by every kind of retail distributor. Some establishments, ranging in size all the way from the tiny home industry to the many million dollar corporation, buy all or most of their goods, and sell exclusively on a mail-order basis. Many city department stores have for years sold by mail as well as over-the-counter. Smaller specialty and general stores in town and country are gradually realizing the opportunities offered by a mail-order adjunct to their businesses. Finally, some manufacturers either market all their product by mail, or else reach the consumer by mail while at the same time they utilize other trade channels and other selling methods. The mail-order business, together with the development of department and chain stores, is an exceedingly important factor in merchandising, and has had much to do with the present complex and rapidly changing situation in the market for manufactured goods.

15. *Necessity of the retail store.*—Of the three methods of selling at retail, the retail store is the most important because it is the most common. It exists because it serves the people. It needs no other justification, and it will not give way to any other method of retail selling until that other method is found which will serve the people better. The retailer is the great middleman; more than all other middlemen combined, he creates time and place utilities. He makes it easy for the manufacturer to market his goods; he makes it easy for the consumer to get them; and he serves in general as a clearing house to crystallize demand and to focus supply. He is an educator, a civilizer and an agent of progress. Imagine a town with no

retail store! The idea is preposterous. Our daily life is adjusted to the fact of the retail store's existence; universal mail-order buying is unthinkable; and until some great change comes in our life, the retail store will continue to exist and to justify its existence.

REVIEW

Assume that you are the manufacturer of a check protector which you wish to sell direct to consumers. What three possible ways of reaching consumers are open to you? Which one seems to be the best? Why?

Under what circumstances could an article of household use be advantageously sold by house-to-house canvassers?

What are the four most important kinds of retail stores?

Why does the retail store control the vast majority of all retail distribution?

CHAPTER V

RETAIL COMPETITION

1. *Retailing prior to the Civil War.*—Before the Civil War, retailing in the United States was very simple. There were only a very few department stores; chain stores were almost unknown; the mail-order bugaboo was not yet threatening the small dealer; cooperative stores were too rare to be considered seriously, and the field was left to the specialty shop and the country general store. Monotony was the most noticeable characteristic of the retail business during this period. The craze for rapidly changing fads and fancies had not yet arrived; the majority of lines consisted of staples that were largely in demand year after year; and consumer demands were less exacting and variable than they are today. Finally, there were generally rising prices, which continued to go up until the end of the war. As a result of all these things, dealers often thought it advantageous to keep goods for a long time on their shelves. When goods are staple and when prices are rising, the merchant is willing to carry stocks over from year to year. Consequently, long before the present age of keen interest in the relation of turnover to profits, retail methods were

often lax and careless. "Storekeeping" was not a career on a par with the professions. It was thought that anyone could keep a store, regardless of ability, and make a living without greatly exerting himself.

One other result followed from the conditions then existing. With prices frequently changing and generally rising, goods were usually left unmarked except in cost figures. The one-price policy was almost unknown. Bargaining was in vogue; goods were usually sold to the individual customer for what that customer could be induced to pay. To be sure, this was not entirely due to current conditions of staple goods and rising prices; it was traditional in retailing, and the conditions obtaining prior to the war and for some time after it, simply provided a favorable environment for a continuance of the customary lax procedure. In such conditions competition was largely on a price basis. A few dealers based a conscious price appeal on a shrewd and in-advance-of-the-times policy of low profits on a rapid turnover. Most retailers, however, knew little of this secret of modern merchandising; they did not offer low prices, tho low prices were often forced from them by bargaining customers. Customers went where they could "beat down" prices, and the curious spectacle was frequently presented of those dealers doing the largest business who were least successful in upholding their original prices.

2. *Changed conditions after the war.*—Nearly all the important conditions surrounding the retail busi-

ness changed soon after the Civil War. Prices began to decline, and the decline was sharp for several years. True, a steady rise soon set in again, but in the interval most dealers had to change their entire basis of business or else go to the wall, and the changes then largely effected have continued to the present day. With the sharp decline in prices, and with the tightening of credit terms granted to retailers, goods had to be sold at once if large losses were to be avoided. Recently in an Illinois town an old merchant died who still had calico on his shelves that he had bought at one dollar a yard, and which he refused to sell below cost. Most dealers, however, were alive to the new conditions. The necessity for quick removal of stock awoke a keen spirit of competition. The retail dealers who had slumbered for years suddenly found themselves faced by the necessity of either becoming very much awake or of going out of business.

The change in retailing conditions brought about by the declining prices after the war was further necessitated by other developments that followed fast on the heels of the price revolution. Prominent among these developments was the increased variety of manufactured goods. With the disappearance of the frontier and with the remarkable growth of American cities, household industries declined; many of the things long produced by each family for its own consumption were now manufactured outside of the home and sold thru retail stores. This meant larger and more complete stocks; and this in turn required the more frequent turning of capital if the average retailer with small capital was to make the same net profit as before and stay in business. He could adjust himself to the new conditions only by radically changing his business methods.

Another development to be noted was the rise of large department stores and other new forms of retail establishments. They often based their appeal for custom on some new form of service to the public, some new idea in merchandising which the public appreciated and to which it quickly responded. The department store and the chain store taught the public what might be done in merchandising, and they have been powerful agencies in educating the small merchant in new ways of serving consumers and in new ways of making profits for himself.

Finally, the extraordinary development of advertising has had great influence on retail merchandising. It has taught the people to know values and has developed new wants; it has introduced the modern problems of trade-marks, proprietary goods and all the complications that have followed in their wake; and lastly it has ushered in the much dreaded mail-order competition.

3. *Status of the retailer.*—All these developments have appeared within the space of a few years—fifty at the most; and they have meant almost a revolution in retail merchandising. They have been good for business. When any business is easy it does not

occupy a high place in public opinion, because it does not always attract to itself the best brains of the nation. If it becomes difficult, if it finds itself confronted with problems to be solved and new relations to be worked out, it takes on a new lease of life. Such has been the history of retailing. The retail business today offers more opportunities for the young man of brains, energy, ambition and determination than a great many other businesses in which he might engage. It is a business that offers social as well as financial distinction. It has come into its own. The old "storekeeper" is a disappearing type. In his place is found the real merchant, keenly alive to everything that affects his business, serving the public always, and receiving a just reward for his services.

4. *New basis of competition.*—The changes that have occurred in retailing in the past fifty years can be summarized as the change in the basis of competition. The old basis of competition was price. The new basis is service. Nowadays even if a store gets trade because of its low price appeal, and many of them do, it *holds* trade because the low price is only one of the forms of service the store offers to its customers. The service that holds business and that draws trade from competitors may be such a simple thing as a policy of courtesy, a "thank you" attitude and a willingness to please; but it is on just such simple, yet important, things as these that great businesses are built and prosper.

5. *Factors in competition.*—We have found that there are many kinds of retail stores. We are to consider the comparative competitive strength and weakness of the more important ones, in order to find out their relative value as distributors of manufactured goods, and to see which kinds of stores seem to offer to the manufacturer the most promise of future usefulness. Such a study should help the several types of retail dealers to analyze their businesses, and to direct their activities in ways that will take most advantage of their natural points of strength and will do the most to minimize their points of weakness. Every retailer competes (1) with many other retailers of the same type as himself, (2) with retailers of other types, and (3) with the direct-selling manufacturer. The second of these classes of competition is our chief subject of inquiry.

6. *Competitive strength of the specialty store.*—We have already referred to the importance of the specialty store. It is found everywhere, in large cities and in smaller towns that have outgrown the country general store. In the city, aside from other stores of the same type, its chief competition comes from the department store; in the country its chief competitor is the mail-order house. As mail-order competition is to be considered in a chapter by itself, our present consideration has to do chiefly with the status of the specialty shop in the city as a competitor of the department store in the same city. That this competition is real is not to be denied.

7. *Convenience.*—It is readily seen that one of the most important sources of the competitive strength of the specialty store lies in its convenience to the public. The great department stores do a large business in groceries, meats, household equipment, clothing and other staples; but it would be hard to conceive of a city in which a few great central department stores could monopolize this type of business. The "corner" grocery store, the local drug store, the exclusive haberdashery, the specialty shoe shop, offer conveniences that the public demands. In outlying districts these small specialty shops serve as neighborhood centers; in the down-town districts they have an appeal all their own. They exist because a large proportion of the buying public finds that they offer conveniences in immediate delivery, personal service, complete stocks, etc., that many department stores cannot in the nature of things offer.

8. *Complete stocks.*—The specialty store also can often offer a complete stock in its one line, as against the more restricted stocks in many lines of the average department store. However, this advantage is not universal. One large department store in Chicago, for instance, carries a larger stock of jewelry than all except two or three of the largest specialty jewelry shops. But it is to be expected that the progressive store owner who gives his entire thought to one kind of goods will be able to offer customers a larger

assortment than the paid buyer of a small section in a large department store.

9. *Personal service.*—The specialty store owner should be able to offer his customer a more personal service than can be offered by the department store. He knows many of his customers personally; he usually relies less on transient trade; and he is in better position to select a stock that will meet the requirements of a known market. The personal touch is of great importance in business. The owner's personality has made many successful specialty stores. To be sure, there is almost an equal opportunity for the capitalization of personality on the part of the section buyer in a department store. Yet it is less difficult for the small store owner to impress his personality and his methods upon his subordinates than it is for a superior to do the same thing in a great system-ruled department store.

10. *Fast turnovers.*—Inasmuch as the specialty store owner usually knows his trade and can readily adjust his stock to known needs, he should be able to carry relatively smaller stocks and thereby turn his capital faster than the department store buyer whose market is wider and less stable. Perhaps this is more a theoretical than an actual advantage, because we find that the record for turnovers is held usually by department stores. The opportunity is the greater, however, for the specialty store owner who is of equal caliber with the department store man.

11. *Low expenses.*—Despite the economies possible in the operation of a department store, department store selling expenses seem to have mounted well above the costs of doing business in the average specialty establishment. Recent investigations resulted in the publication of the following figures showing the average costs of doing business in a number of specialty stores and department stores. The percentages are based on total sales as follows:

Groceries	15.91
Vehicles and implements	17.44
Variety goods	17.76
Hardware	19.41
Clothing	20.27
Dry-goods	23.05
Shoes	23.22
Furniture	23.91
Drugs	24.65
Jewelry	25.81
Department stores	26.18

The value of statistics of this sort depends on the accuracy of the accounting on which they are based and on the number of cases investigated. The figures are given as merely suggestive of the general relation probably existing between selling expense in specialty shops and in department stores. If the specialty store owner has the advantage which the figures seem to indicate, he should be able to pass on part of his advantage to his customers in some way so as to increase his strength in competition with the department store.

12. *Competitive weakness of the specialty store.*—The specialty store has its points of weakness as well as of strength. Among them are the following:

13. *Limited trade.*—Specialty stores are mostly neighborhood establishments. Possible customers are limited to those people living or working in the vicinity of the store. Many neighborhood specialty stores do a comparatively small business for this reason. A few neighborhood stores overcome this disadvantage and draw trade from great distances, but they are decidedly the exception. This disadvantage is overcome when the specialty shops are centrally located.

14. *Limited advertising opportunities.*—The purely local nature of the business of most neighborhood stores precludes the profitable use of newspaper advertising. Suppose that a city has twenty-five thousand inhabitants, and the leading newspaper has a circulation of four thousand. The four thousand subscribers are scattered all over town. All who advertise in the paper must pay the same rate, which is based on the total circulation. A small neighborhood store, appealing at the most, let us say, to two or three hundred of the four thousand subscribers, would find the waste circulation so large as to make the advertising rate prohibitively high.

Although the centrally located specialty shop does not have the same advertising disadvantage as the neighborhood store, it still suffers in an advertising way in contrast with its large department store competitor. The latter, because of its size and the number of different kinds of things it has to offer, can often use much larger advertising space than it would be profitable for the specialty store to use. No matter how carefully it is prepared the small advertisement does not always attract the same attention as a larger one.

15. *Limited lines.*—Another inherent weakness of all specialty stores, whether local or centrally located, is their inability to provide the shopping advantages of the department store. If a customer has several things to buy, it is a convenience to be able to buy them all under one roof. On the other hand, many people, having one definite need in mind, and eager to satisfy it quickly, prefer to deal with the specialty shop rather than to hunt thru a department store for the thing they want.

16. *Buying weakness.*—Perhaps the greatest weakness of the specialty store is its frequent inability to command as advantageous relations with sources of supply as the largest department stores command. In the first place, large department stores can afford to have buyers in all the great markets, constantly on the alert to pick up bargains and new lines for their customers. The small specialty store lacks this advantage, and, even if it combines with others in other cities to maintain a common buyer at the central market, the service is not likely to be so efficient as the service of a buyer who serves but one house. In the second place, even tho the shoe department, for ex-

ample, of a department store may not sell as many shoes as are sold by a competing specialty shoe shop, the department store can, on occasion, command better prices than the latter, not because it sells more shoes, but simply because it is a department store, and because some manufacturers are willing to give an extra discount in order to buy the prestige that is supposed to attach to a line of goods that a great department store is willing to handle.

17. *Poor management.*—Another point of weakness, altho by no means inherent, is the fact that many small specialty stores are less efficiently managed than competing department stores. After all, prosperity in a department store and its absence in a specialty store, are, in ninety-nine cases out of a hundred, probably due to efficiency in the former and lack of efficiency in the latter. If there is the same degree of managerial ability, apart from exceptional conditions, the specialty shop gets its fair share of the business and its fair share of the profits in competition with even the most successful department stores.

18. *Opportunity of the specialty store.*—The specialty store will surely continue to serve an important function in merchandising. It performs a necessary service in many communities, and the public will be unwilling to abandon the conveniences that it offers. It has prospered in the past in thousands of cases in competition with department stores, and it will continue to do so in the future. By cooperation, by handling well-known goods, by developing its strong-

est point of individual service, by capitalizing its individuality, and by using for its own advancement all the workable methods that its great competitor may discover, it will find an increasing field for prosperity and usefulness.

The manufacturer seeking an outlet for his goods should certainly consider the specialty shop. If his goods are of the sort that require wide distribution, the specialty store is almost the only trade channel open to him. Those manufacturers particularly who trade-mark and advertise their products are likely to find the department store a less susceptible customer than the smaller specialty store, which, in order to make large sales, often needs to add to its own good-will the good-will attaching to the national advertiser's products.

19. *How the country general store holds trade.*—The country general store competes with city specialty stores and city department stores that solicit the personal visits and trade of country dwellers, as well as with the exclusive mail-order establishments and the mail-order departments of all kinds of city retail stores. Aside from mail-order competition, which is reserved for consideration in a later chapter, the chief problem of the general store is to compete with city stores which solicit the trade that goes from country to city in person. Its competitive strength here is of the same nature as that of the small town specialty store.

It is more convenient to purchase at home than to go to the city to trade. Delivery is quicker, and adjustments should be less attended with difficulties. The great majority of people have small incomes; they must purchase in small quantities, and cannot anticipate their needs to any great extent. The local store must be relied on to supply most of the necessities of country life.

More than any other dealer the country merchant knows his customers personally. With the right personality, he can hold trade that will be proof against any alluring offers from city stores. He can base his credit risks on absolute knowledge of his customers, and thereby cut down bad debts to a minimum. And he can, if he will, carry a stock that will reflect perfectly the normal demands of his trade. The fact that he does not always do this is no argument against the possibility of his doing it.

20. *Why the general store loses trade.*—The weaknesses of the country general store are partly inherent and partly avoidable.

The stocks in each line are necessarily small. This is an inherent disadvantage. Patrons of a country general store will buy from it those staples that involve anywhere little opportunity for selection and which they must have at once, but they will often go to the city for luxuries and for articles that are usually referred to as "shopping lines."

Another weakness of the country store is the mere fact that it is in the country. As long as country conditions differ from city conditions, the city will have a lure for the country dweller, just as the country has a lure for most city dwellers. This lure would draw some trade to the city, even if the same goods, in the same assortment, at the same prices which the country visitor finds in the city store were on the shelves of the local dealer.

Moreover, many country stores lose trade because they are inefficiently conducted. While this is not true of all country stores, it is true of many of them. Poor advertising, poor selling, poor buying, lax credits—these and many other avoidable faults are chiefly responsible for much of the country trade that goes to the city. Those country stores that are efficiently conducted have little occasion to bewail the cityward trend of trade.

21. *Opportunity of the country store.*—Some people think that the country general store is doomed. If so, what is to take its place? There is nothing that can or will entirely take the place of the general store. Where the inhabitants of any community are too few to support a number of specialty shops, the only way in which the great majority of the needs of the community can be satisfied is over the counters of the general store. Such a store may lose some business to the city and to mail-order houses, but the great bulk of the country trade must remain with it. For many manufacturers the general store is the only possible avenue to country buyers; and, as an increasing number of country merchants realize their opportunities and responsibilities, adopt modern merchandising methods and improve generally in

buying, selling and advertising, the country store, instead of dropping out of the merchandising system, will prove an increasingly prosperous and profitable outlet for many articles of merchandise.

22. *Reasons for department store strength.*—The city department store is looked upon by many retailers of other types as their most feared competitor. It is true that it has unusual competitive strength. Its size, its advertising, its sales have an element of the spectacular about them that would draw trade even without more substantial reasons. These more substantial reasons, however, are the basis for the department store's great success. In competition with city specialty stores, with small specialty and country stores in the surrounding territory, and with exclusive mail-order houses if it does a mail-order business, it draws great volumes of trade. Disregarding for the present the mail-order phase of competition, its strength is based on a number of factors:

23. *Department store economies.*—The department store offers the opportunity of unusual economies in operation. Theoretically, the overhead expense for two departments or stores under a common roof should be less than for the same two stores under separate roofs and separate ownership. Thus, if an expenditure for advertising draws people into the store to inspect the special offers of one department, and results in their purchasing not only the special offers but also the goods in other departments which claim their attention, the advertising expenditure is

doubly efficient, and the charge for advertising against each dollar's worth of goods sold is less than it would be if the publicity produced sales in one department only. The list of theoretical savings might be extended to great length.

Why is it, as we have seen, that the department store cost of doing business averages higher than selling costs in other kinds of retail establishments? Selling costs in some great department stores have run as high as thirty-five per cent of the gross sales; many of the larger stores report as high as twenty-five per cent, and the average is said to be in excess of twenty-six per cent. Such a cost of doing business would ruin the average specialty shop. Why, with its opportunities for economies in operation, has the selling cost in the department store reached such excessive figures?

There are many possible answers to this question. One of them is that the department stores in a city are usually located close together. To a large extent they all appeal to the same people; none has a localized trade; all are in keen competition with one another. One store adds an expensive item of service, and others promptly follow suit. One moves to a newer, more favorable, and more expensive location, and the other stores follow its lead. The department store chooses the most central district with the highest land values, in the first place, and then the fact that increased trade is drawn to that district raises still more the value of the ground occupied by the store.

All of these and many other factors operate to increase the department store cost of doing business, and counteract the many economies that are actually effected by reason of its peculiar form of organization.

24. *Conveniences of department stores.*—Department stores owe their strength in large part to the conveniences that they offer to the public. These conveniences are obvious: central location, concentrated purchases, concentrated credit, systematic and extensive delivery systems, elaborate rest rooms and other provisions for the pleasure and comfort of patrons. All these things are appreciated by the public and enlarge the business of the department stores.

25. *Department store buying strength.*—The department store often has greater buying strength than the specialty store. This does not mean that the department store usually buys any one line of goods in greater quantity than the specialty shop dealing only in that line, altho this is sometimes the case. The buying strength of the department store arises from the fact that it is a much sought outlet for the goods of manufacturers; its support is often essential to the introduction of new goods; manufacturers are in keen competition for its services, and, to obtain its cooperation, they often grant it buying advantages that are not granted to specialty stores. Many department stores will not buy thru jobbers; they demand the jobbers' discount from the factories. The elaborate buying organization of a great department store is often in a position to pick up bargains, odd lots, and

jobs that are never brought to the attention of the small, local specialty store. All these buying advantages result in the possibility of low prices, lower often than those of specialty stores despite the greater cost of doing business of the department store.

26. *Advantages due to size.*—Size often enables the department store to attract and to hold trade. While a specialty shop cannot afford to employ an instructor to give his whole time to increasing the welfare and the sales efficiency of the sales force, the department store can and frequently does do this. With a great variety of goods, each of which must stand its share of the advertising expense, the department store very often uses large-space, expensively displayed newspaper advertisements. Few specialty shops can compete with it in this respect. The fact that a business is big means that it can employ big men at big salaries. There are many exceedingly successful and efficient men in charge of specialty stores; but, speaking generally, the high salaried business generals of the great department stores bring to their work a vision, a merchandising courage and skill, a knowledge of business and its methods that are sometimes lacking in the case of the competing specialty store owner.

27. *Elements of weakness in department stores.*—There are elements of weakness in the department store.

Its size is likely to lead to decentralization of policy.

In a large organization, where constant supervision of employes by the more responsible officials is not possible, there is especial danger of injury to the entire establishment thru the unauthorized statements or actions of someone who is only an irresponsible cog in the machine.

Dealing with thousands of customers, the business must be conducted largely on an impersonal basis. Of course, the department heads and salespeople often build up a permanent clientele based as much on pleasant personal relations as on reliable goods and proper house policy. On the other hand, many specialty shops hold a large amount of their trade because many customers like to deal with individual owners or managers instead of with great machine-like organizations.

The extreme competition among rival department stores and the growth of public demand for increased and expensive service of many kinds often necessitate expenditures that are likely to bring the outgo dangerously near the point of no profits. The story is told of one well-known department store that had drifted along with the tide of increasing demands for competitive service until it found itself confronted by a selling expense that ate up thirty-five cents out of every dollar received from sales. Only a sudden awakening to the danger and an immediate policy of careful retrenchment saved the store from failure.

28. *Opportunity of the department store.*—The department store has built up trade largely because of

the service it offers to customers. There are indications, however, that many items of business-building service have proved so expensive that department stores are seeking to abandon or modify them. For instance, the delivery of goods on approval has been so often abused that many stores have greatly restricted this part of their service. Some stores are cutting down the size of their rest rooms. Others are finding the tremendous ground rent of expensive locations almost too great a load to carry. If department stores, because of the growing cost of their expensive kinds of service, are forced to abandon these services altogether, it will be interesting to see whether the department stores' remaining competitive advantages will be great enough to retain for them their present prominent place in the merchandising field.

As long as the department store is the shopping center of a community, many manufacturers will be forced to seek its cooperation. The low prices demanded by department store buyers, and the frequent disinclination of such stores to handle any brands except those bearing their own name, are a bar to the goods of a considerable number of manufacturers. Nevertheless, the tremendous output of department stores in shopping lines will continue to make such stores much sought outlets as long as they retain their present position of paramount importance in the retail world.

REVIEW

What important change occurred in retail merchandising after the Civil War, and why?

A well-managed down-town hardware store finds itself in competition with a neighboring department store, which has recently installed a hardware department. Is the specialty store likely to compete successfully? What advantages has it in getting and holding trade?

An outlying drug store in a city of about fifty thousand, though a good store with a fairly able manager, sees much of its trade going to the down-town department stores and chain stores. What are ordinarily the reasons for such a condition?

Is the country general store fighting a losing fight? What is likely to be its status in the future?

What makes the department store strong? What present tendencies hinder the growth of department stores?

CHAPTER VI

THE CHAIN STORE

1. *Rise of the chain store.*—The newest competitive factor in the retail field is the chain store. Quietly, without ostentation, the foundations for the chain-store system of retailing were laid almost as far back as Civil War times when the Great Atlantic and Pacific Tea Company and, later, a few other companies began to extend their operations over wide sections of the country. For many years the pioneers in the field conducted their business with profit to themselves and with constantly increasing efficiency, without receiving much attention from manufacturers, from legislators or from trade journals. The public patronized the chain stores in increasing numbers, and other forms of retail establishments with which the chain stores came into competition gradually awoke to the competitive strength of the new method of retailing. Until comparatively recent years, however, the growth of chain stores was gradual and unostentatious. They were not given general consideration either as a menace or as an opportunity by the other factors in the merchandising field.

2. *Kinds of chains.*—The awakening of general public interest in chain stores dates from the remark-

able spread of the five-and-ten-cent store idea, from the spectacular rise and success of the United Cigar Stores Company, and from the increasing application of the chain plan to groceries and drug stores. Even this development, however, has not centered upon the problem of the chain store the same degree of popular interest as that which has attached to the better understood methods and problems of the mail-order houses and department stores. A few chains are national in scope, but most of them are local, and the great majority of the latter are confined to the East. Countless communities know nothing of chain stores. The idea is spreading; the West and the country towns are being invaded, and it is high time for manufacturers, jobbers and retailers, as well as for the buying public to give careful thought to this newest and, in many ways, strongest factor in retail competition.

There are four kinds of chains. First come the *retail corporations* owning many stores. Well-known examples are the F. W. Woolworth Company, United Cigar Stores Company, Childs Company (restaurants), and the Owl Drug Company on the Pacific Coast. Next in importance are the *manufacturers' chains* of retail stores or branches. Among the better known are Browning, King & Company (men's clothing), Huyler's (candy), W. L. Douglas Shoe Company and the Singer Sewing Machine Company. If we confine the term chain stores strictly to stores that are *under one ownership and direction,* then retail corporations and manufacturers' chains are the only ones properly included. The term is commonly used, however, to include two other types. *Retail buying associations or combines* are growingly important competitive factors. For example: the United Drug Company (Rexall stores), American Druggist Syndicate and the United Buyers' Service for variety stores. Finally, there are *consumers' cooperative* retail chains. They consist of several stores, owned cooperatively by consumers, and operated to a varying extent on the chain-store principle. Altho common abroad, such chains are in their infancy in this country. In addition, there are various intermediate types, such, for example, as certain loosely connected systems of dry-goods stores which, while commonly owned, exercise relative independence in operation. In this and the following chapter the first two types are chiefly considered. The latter two are considered in Chapter XIV on Substitutes for the Middleman.

3. *Importance of the chain-store movement.*—The independent retailer sees in the chain store a worthy competitor. In some fields the chain store has revolutionized retailing, has sent many old-line dealers to the wall, and has forced many others to do a new type of business. The jobber sees in the chain store an organization that deprives him of much of his best business and that usurps jobbing functions and jobbing profits. The manufacturer who advertises and trade-marks his goods finds many chain stores unwilling to cooperate with him. If they handle his

products, he often believes them guilty of price-cutting and substitution. Finally, the consumer, whose interests, of course, are paramount, finds that many chains deprive him of some of the forms of retail service to which he has been accustomed, others add new kinds of service, and nearly all of them use the low-price appeal in one way or another in order to get his trade.

4. *Magnitude of the movement.*—Few people have any conception of the magnitude of the business done by the chain-store system of the country. One chain alone, the Woolworth five-and-ten-cent stores, in 1916 did over $87,000,000 worth of business. This enormous total resulted from the sale of such widely varying articles as jewelry, sheet music and confectionery. A few chains are said even to surpass these tremendous figures. Altho it is impossible to quote accurate figures, owing to the rapidly changing conditions in the field and to the difficulty of securing complete statistics, it is safe to say that in the United States there are more than 2,000 different systems of chain stores, each one with three or more stores, and aggregating at least 25,000 stores in all. This total is relatively insignificant when compared with the total of three-quarters of a million retail stores in the country. Moreover, the strength of the chain stores is largely concentrated in a few lines in the cities, and in a relatively few cities at that. The largest number of chains is in the grocery field, prob-

ably 500, or a quarter of all the chains, with a total of about 8,000 stores. This is only five per cent of all the grocery stores in the United States. But in the few cities where chain groceries are largely concentrated the chains often do twenty-five per cent of the business, and in Philadelphia their share is said to be as much as seventy per cent. It is this intensive characteristic of chain-store competition, together with the rapid spread of the chain-store idea into new sections and new lines, that makes the chain store something to be carefully considered in any scheme of distribution.

5. *Some better known chains.*—The importance of the chain store can be judged from the number of stores operated by some of the better known systems in 1916. Great Atlantic and Pacific Tea Company (groceries, national in scope), 2,339 stores; Louis K. Liggett Company, operating the Riker-Hegeman, Riker-Jaynes and Liggett's drug stores (local New York and New England), 139 stores; United Cigar Stores Company (national), about 1,000 stores; Owl Drug Company (sectional, Pacific Coast), 22 stores; F. W. Woolworth Company (national), 805 stores; S. S. Kresge Company (5-and-10-cent, national), 152 stores; Baltimore Dairy Lunch (national), 117 lunch rooms; Childs Company (national), 86 restaurants; J. C. Penney Company (small town department stores, sectional, the far West), 126 stores; R. H. Long (Waldorf Shoes, national), 47 stores; W. L. Douglas Shoe Company

(national), 101 stores; the Regal Shoe Company (national), 48 stores; W. T. Grant Company (25-cent stores, sectional, the far East), 24 stores.[1]

Some few years ago a list was prepared of over fifty different lines of business in which chain stores were found. Apart from the corporations mentioned in the preceding paragraph, the list gave some other important chains with the number of stores at that time as follows: James Butler (groceries, local, New York), 238 stores; Scotch Woolen Mills Company (tailors, national), 117 stores; Gately's Credit Clothing Company (national), 115 stores; Union News Company (news stands, sectional, the East), 900 stands; Singer Sewing Machine Company (national), 800 stores.

Notable also are the two great retail buying associations in the drug field: the United Drug Company (Rexall stores), stock in which is owned by over 7,000 druggists in all parts of the country; and the still more extensive American Druggist Syndicate, formed by an association of 16,000 retail drug stores. Both of these chains, while known partly as cooperative buying organizations, also engage largely in manufacturing, and the Rexall stores have advertised their products nationally.

6. *Tendencies in the chain-store field.*—There are several noteworthy tendencies that must be considered in a study of chain stores. Among the most impor-

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[1] The information here given was courteously furnished the author by the respective organizations.

tant is the tendency to consolidate competing chains. For example, the Kroger Grocery and Baking Company, starting as a local chain in Cincinnati, in 1908 absorbed the 60 stores of a local competitor, and more recently has acquired rival chains of grocery stores in St. Louis and Detroit. Early in 1916 the L. K. Liggett Company, owning 45 drug stores in Boston and vicinity, acquired a controlling interest in the 107 stores of the Riker-Hegeman and Riker-Jaynes drug chains in Greater New York and New England. The Liggett Company, in turn, is owned by the United Drug Company, stock in which, as has already been stated, is largely owned by about 7,000 widely scattered retail druggists.

Another significant development is the expansion of certain chains, by means of agencies, into small communities no one of which could support a separate store of the chain. The United Cigar Stores Company follows this policy. Another important movement is the control of entire factories by some of the retail chains. Such movements have suggested to some people that retail merchandising in certain lines will ultimately be concentrated in the hands of a few great chain systems. Whether this will happen or not, the development of the chains is sufficiently significant to warrant careful study of their strength and of the possibility of successful competition against them on the part of independent retail units. In the present study of these problems we shall draw our illustrations largely from the type of chain stores previously designated as retail corporations—a type in which there is central ownership and direction, and no necessary connection with any factory. Much of what is said, however, applies equally to other types—manufacturers' chains, retail combines and cooperative chains.

7. *Strength in financing.*—The inherent competitive strength in chain stores is due almost without exception to the one element of *size.* Generally speaking, the chains are strong because they are large merchandising units—they do big things in a big way, and they take advantage of all the cost-saving expedients that seem to go with large scale business.

The large capital requirements of an extensive chain put this type of enterprise in the class of "big business." The great financial houses are attracted to the chains, frequently become interested in them, and thereby, thru interlocking directorates and other means, often tie up the chains with advantageous sources of supply. Many chains use their large capitalization as a means of advertising; they make a point of selling stock in very small blocks, and of placing it largely in small amounts among individual investors in communities in which the chain stores operate. This results in the enlistment of an army of local boosters for the chain system.

8. *Advantages in picking sites.*—In picking sites for the stores the large capital of the chains permits them to adopt methods not open to their small competitors. The following quotation from *Printers'*

Ink (November 12, 1914) suggests methods followed by most of the large chains:

> There are over 80 Childs restaurants in the country, and every one of them located by system. The right and proper location is considered so important by the company that it will not go into a city or a neighborhood unless it gets the place it wants. It has waited as long as five years to get it, and it always knows why it wants it, because it has data on virtually every available place in the country. The Childs Company owns the buildings where many of the stores are located. Take the site at 194 Broadway, New York. The ground is assessed at some $925,000. On this plot it has put up a three-story building that certainly could not have cost less than $75,000. The investment is thus a round million dollars—a sum that would earn $50,000 or $60,000 at interest. The estimated income for a year of week-days is $600,000. Anybody who knows anything of marketing can guess at the cost of the food. Labor, salaries, and overhead are harder to figure, but it will be seen that the margin between the investment value of the money, $60,000, and the gross earnings of $600,000, is a promisingly large one out of which to carve profits.

Many companies buy their own buildings. It is said that the United Cigar Stores Company will frequently buy an entire building, utilize only a tiny corner of it, lease the rest, and make enough on the transaction to return adequate interest on the investment, pay the rent of the store, and yield a handsome profit besides. Indeed, some chains are said to make their entire dividends on their real estate transactions. Most of the large chains operate subsidiary companies that are charged with the entire responsibility of selecting locations, fixing rentals, purchasing property and managing it. The method of fixing on locations by counting the pedestrians passing promising situations has been explained in many magazine articles. This is simply the application of scientific management to the first step in store-keeping; facts and figures are substituted for guesses as a basis for picking store locations. The plight of the small retailer in picking locations is made clear by another quotation from *Printers' Ink:*

> When the individual retail merchant picks out a site, the rental usually makes a big hole in his estimates. Unless he has had real-estate experience he does not drive so good a bargain with the landlord, to say nothing of buying cheap. Most merchants, taking the big and little together, have real-estate transactions only once or twice in their lives. They are likely to be doubtful, cautious, and conservative in selecting sites, renting, and buying. The chain system, on the contrary, acquires experience as it grows, and comes to capitalize this into standard practices. It is able to select its cities, its neighborhoods, its sites, with speed and precision. The dickering for lease or sale is done by experienced men.

In other words, the chain knows the best locations, and it usually gets them. It gets long-term leases, and thereby the most favorable rents, or else it buys outright and makes money on the deal. These advantages give the chain store an advantage at the start which the independent finds it hard to overcome.

9. *Standardizing size and appearance.*—The opportunity to standardize in a variety of ways is one of the greatest sources of strength in chain stores. When a large number of units are doing the same thing, and

when sufficient capital is available, it is possible and advisable to devote time and money to finding the one best way for all of the units to do that thing. For example, one problem of any store is how best to decorate the interior and exterior so that the appeal will be strongest and most pleasing to prospective customers. The independent store has often neither the time nor the money to settle this question. The chain can hire experts, standardize the appearance of its stores, and derive great advertising value from such standardization. Similarly, the small independent store may or may not be occupying the amount of space which it can most advantageously occupy. The chain, on the other hand, can experiment with its many stores until it has found, for any given type of location, the precise space which is needed for stock, for display, for customers and for clerks, and then standardize on that amount of space so that no unnecessary cent will be spent for rent.

10. *Buying strength.*—Some maintain that the greatest strength of the chain store is in its ability to buy more advantageously than its independent competitor. This advantage takes the form of quantity prices—the simple principle that two stores by pooling their purchases can buy in greater quantities and thereby get lower unit prices than one. Multiply two by two hundred, and the buying advantage becomes still more apparent.

11. *Inside prices.*—Quantity prices, however, are not the only advantage in price said to be possessed

by the chains. It is frequently asserted that manufacturers, eager to get the great distributing strength of the chain system behind their goods, give to the chain certain secret discounts and inside prices, in addition to the ordinary quantity discounts that the size of their purchases would warrant. Congress has already given some consideration to the ethics of these inside prices, and there are indications that the independents will attempt to fight them, charging them with being an important factor in alleged unfair competition.

Another charge often brought against chain stores and their suppliers is that long datings are frequently given on chain-store bills—goods are delivered to the chains, say, in January, and the bills are dated March 1. It is said that discounts for cash, intended to be taken in ten days or less, are permitted some chains even when they take a month or more to audit and pay their bills. If these chain systems turn their stock twelve times a year—and many of them do better than that—and if they pay their bills in thirty days, they are operating on the capital of the supply houses, and at the same time getting the goods for a spot cash price. Certainly the evil of datings and the improper use of the cash discount are by no means universal in the chain-store field, and, where they do exist, it is probable that they are correcting themselves thru the publicity that is being given to chain-store methods.

12. *Direct buying connections.*—Because of the size of the purchases made for the entire chain, the

chain store can usually command direct buying connections with manufacturers. This means in the first place, the lowest wholesale prices, and in the second place, it means the opportunity to deal only with specialists in the various lines. The small store, buying thru a jobber, can buy only what the jobber can handle. Some manufacturers making desirable goods do not deal with the jobber; their goods are available only to the large-scale, direct-buying retailer, in which class are the chain stores. Direct buying also means that the chain stores attract manufacturers who have special bargains to offer. The chain stores provide a large and sure market for the manufacturer's occasional surplus which the jobbers cannot handle, and which the manufacturer must turn at once into cash.

13. *Buying organization.*—A chain-store system, doing business on a large scale, can frequently afford to maintain an elaborate and expensive buying organization. It can employ high-priced buyers who are masters of their work; it can have buyers in all the important markets to pick up bargains and to seek out the profitable novelties; it can command sources of supply and obtain certain goods even when the independents find it impossible to get them; and it can afford to take chances on new kinds of merchandise which the independent would often not be able or unwilling to take. A buyer for a New York drug chain, for instance, decided to try to sell umbrellas in drug stores; a single store in his chain succeeded in selling one thousand the first day. Finally, the chain can often buy, build or control whole factories, thereby taking the manufacturer's profit for itself, or else passing on this saving to its customers.

14. *Jobbing profit.*—Many chains credit themselves with a jobbing profit on their books, and bill goods to the individual chains at a price in advance of the first cost. It is said that in this way many chains could do an excellent business on their jobbing profit, even if they did not make a cent in their retail stores. It cannot be denied that the expense of an elaborate buying organization and the heavy charges for central office overhead are likely to eat up a good part of the buying savings, but as long as these savings find any expression in lower prices to consumers, or as long as the buying facilities provide unusual qualities and selections for the buying public, the chains have an advantage which their independent competitors have difficulty in meeting.

REVIEW

What are the distinguishing characteristics which put each of the following chain store organizations in a separate classification: F. W. Woolworth Company, W. L. Douglas Shoe Company, Rexall Stores?

Approximately, how many stores are there in large chain organizations, the names of which are most familiar to the general public?

What significant tendencies are there in the chain store movement?

What are the more important reasons for the marked success of such a chain as the United Cigar Stores Company?

Have you personal knowledge of any chain store methods which account, partly at least, for the stores' success?

CHAPTER VII

THE CHAIN STORE—*Continued*

1. *Price advantage.*—The size of the chain-store systems and their peculiar advantages in buying give them certain advantages in selling. One of these selling advantages has to do with prices, and the other with service. The average consumer believes that all chain-store prices are low. Prices are low in many cases, but there are many chains in which there is no attempt to appeal on the price basis. The James Butler grocery stores in New York get trade largely by a low price appeal; the Park & Tilford stores, on the other hand, do not cater to the low price trade. Even when price is the bait, it is not clear that all of the goods sold by the chain store are sold below the prevailing market price. Generalizations are not possible, and yet it is probably true that the majority of chains try to create the impression of low prices, and that many of them do offer some or all of their goods at low figures. The factors that make the low price appeal possible in chain stores are chiefly the following:

2. *Good buying.*—The opportunity to buy goods at low figures and to pass on the advantage to consumers has already been noted. This is perhaps the

only advantage which the large chain store naturally has over its small independent competitor. Its other apparent advantages are such as might be utilized by the well-managed independent, either acting alone or in cooperation with other similar stores.

3. *"Loss Leaders."*—It is said that the chain store often makes a habit of cutting the profit on standard and nationally advertised goods, and then, to make up the loss, takes a long profit on its own privately branded lines and on unbranded goods. Some chains have used this method of offering "leaders" constantly, and other chains have done it at times. However, they are not alone in the practice; department stores and mail-order houses frequently bid for business by offering low-priced standard "leaders," attempting thereby to create the impression of a general low level of prices; and many independent stores do the same thing. The opportunity to do it on a large scale, nevertheless, probably is greater in the case of the store or chain of stores backed by large capital than in the case of the small independent dealer who must make, or who thinks he must make, every cent of his capital bring him an immediate profit.

4. *Chain-store expenses and the heavy overhead.*—The chain stores are commonly thought to operate on a low expense basis, and the low expense, in turn, is supposed to be reflected in low prices. In some ways chain-store management permits the cutting of expenses. For instance, the chain store usually carries a minimum of stock. It has facilities for getting ad-

ditional stock quickly from a central warehouse, and the individual store does not tie up its capital in excess goods to satisfy future demand. The central warehouse must have the goods, but storing in a warehouse is ordinarily cheaper than storing on the shelves of a store; and, where several units in a chain of stores are located in one city, the city superintendent usually has better facilities for accurately measuring and providing for future demand than has the buyer for a single independent.

Another opportunity for cutting expenses lies in the chain's standardization of methods. For example, in the five-and-ten-cent stores, and in some of the grocery chains, the selling methods have been so standardized that salespeople require the minimum of personal initiative as well as little supervision by the management. Low-salaried people may often be employed both for selling and for supervising the selling in the individual stores. It should be noted, however, that in many of the chains the selling ability required and the wages paid compare very favorably with those of the best of the independents.

Another way in which some chains cut expenses is by the elimination of some so-called standard items of service. Several chains, notably the Penney department stores (formerly the Golden Rule stores) in the far West, do not deliver goods. Others deliver only purchases above a certain value, while others make a charge for delivery. Perhaps the majority of all chains do a strictly cash business. The saving in the cost of keeping book accounts, of making collections, and the avoidance of credit losses constitute very real elements of expense saving.

Contrasted with what are frequently the low expenses of the individual stores in a chain are the high general office expenses—for instance, the large salaries of skilled buyers and of other experts who serve the several stores. Even this large overhead ordinarily becomes of little importance when distributed over all the stores in a chain. No figures are available to show exactly what these expenses average. One chain of small dry-goods stores asserts that it does business on an expense basis of eleven per cent on sales. As compared with the expense percentage ranging from fifteen to twenty-five in most independent stores, this is exceedingly low. The average chain-store expense, however, is probably only three or four per cent lower than the average competing independent store expense, and some chains are known to operate on a higher expense basis than their independent competitors.

5. *Quick turnovers and low profits.*—An almost universal characteristic of chain stores is a recognition of the A B C of good retailing—low profits on each sale and quick turnover of stock. Suppose that a store normally carries a stock worth $5,000 at the marked selling price. It averages forty per cent profit on each sale. The gross profit on one turnover of stock, then, amounts to $2,000. If it turns its stock four times a year, the total yearly gross profit is

$8,000. If, however, it were to be satisfied with a twenty per cent gross profit on each sale, it might so increase its sales thru lower prices of its goods that it would turn its stock ten times a year. Its total yearly gross profit would then become $10,000. This simple principle is applied by nearly all the successful chains.

The rapid turnover of stock which is usual in chain stores is not due solely to low prices, but in part to service, advertising and other features of management. The average grocery is said to turn its stock ten times a year; the Bowers groceries in Memphis turn theirs forty times a year. The average grocery takes a gross profit on each sale of twenty-five per cent and a net of from five per cent to eight per cent; the Bowers stores take a gross of twelve and one-half per cent and a net of two per cent. The average drug store turns its stock three times a year. Many chain drug stores turn theirs twelve times a year. The majority of independent tobacco stores turn their stock only four times a year; some of the stores in the United chain show a complete turnover of stock fifty times a year, or approximately one complete turnover a week. No wonder that the chains are extremely formidable competitors.

6. *Public looks for low prices.*—Finally, the chains derive a selling advantage from the fact that the public generally assumes that the chain's prices are always low and that its goods are better. This attitude of the public mind, created by judicious pricing,

excellent buying and extensive advertising, is a real asset to the chain and a real handicap to the independent. Frequently the independent store must offer *lower* prices and *better* goods than the chain in order to hold its share of the trade. In other words, the chain store often serves as the standard by which many consumers judge other prices and values.

7. *Strength of chain stores in service.*—One factor in selling strength is price. The other is service. Some of the chain store's service strength is derived from the size of the chain, but much of it the smallest independent competitor could have if he wanted it. The kind of service that results from the size of the chain is indicated by the sort of salesmanship that is found in some of the chains—tobacco stores and drug stores, for instance. Somewhere in these great chains is a man who specializes in retail salesmanship, who has studied the problem until he has reduced it to an art. This art he teaches to his salespeople. The salesmanship is standardized for the benefit of the customers. Other kinds of service that are standardized in the chains are methods of goods display, arrangement of the store, advertising and store fixtures. The pleasure and convenience of the customer are considered by the expert who standardizes these things just as much as are the reducing of expenses and the making of profits for the chain.

Many chain stores give particular attention to complaints, and in other ways do what they can to satisfy the customer and encourage his continued patronage.

The smiling "thank you" attitude of some chain-store clerks is noteworthy. There is nothing in this kind of service which is necessarily confined to chain-store selling. Any independent dealer with an intelligent conception of his duty toward the public and of the real meaning of modern merchandising can adopt forms of selling service that will match the methods of even the most advanced of the chains.

8. *Strength in organization.*—Chain stores are organized in two ways. When stores appeal largely on a price basis they are often likened to huge machines; the emphasis is on methods, not on men. One chain-store official has said: "The world has been trying to get things done by selecting men and trusting them unaided to do its work. Instead, someone in authority should first find the thing to be done, then find the best way to do it, and finally teach the men to do it that way." This, of course, is the essence of scientific management. This principle, when applied strictly, takes out of the stores most of the necessity for initiative—the initiative is concentrated at headquarters. There is an obvious danger in this—the danger of killing ambition, leveling personality and retarding individual development. Of course, no chain wants to bring about this result, but its possibility is undeniable. Nevertheless, many chains believe that such risks are less important than the unquestioned development of mechanical efficiency which systematic, complete organization carries in its train.

Other chains grant to the store managers and salespeople a large measure of individual initiative. They encourage the development of brains and ability in every way possible, seemingly without losing any of the efficiency of careful organization. In both types of stores there is one outstanding advantage which the small independent dealer cannot have. A chain of stores is a big business; it does business on a large scale; it can pay large salaries when necessary. Accordingly it can employ high-salaried men in all executive positions to study, plan and direct the work of subordinates all the way down the line. Salaries are not the only measures of ability; and the supreme ability of an executive at the home office may not be reflected in the activities of his subordinates in distant chain stores. Nevertheless, the chains, theoretically at least, have an advantage over some of their smaller competitors to the extent that high salaries can command men more skilled in competitive strategy than can smaller salaries or small profits.

9. *Advantages in advertising.*—In many ways the chains have strength in advertising. The mere number of the stores is a continual advertisement which suggests success and business on a large scale—two things which always attract trade. Moreover, the familiar store front, carefully standardized with a view to its effect on the public, is like an old friend to a consumer moving to a new town or to a new part of a town; he is inclined to patronize it instead of going to a strange store. The individual retail store is often a poor advertiser. The manager of a chain

store may know just as little of advertising, but there is a man at headquarters who knows much about it; he can aid the local manager with his advertisements or prepare them for him. A small independent store cannot advertise largely in the papers of a great city; it would not pay to do so; it must often confine itself to small space. A chain of stores with many branches in a city can advertise largely in the locality; it can gain attention and interest thru the mere size and number of its announcements. If a chain is widely spread over the country, it may even advertise on a national scale in mediums of general circulation.

Not all chains advertise in newspapers and magazines, however. Many of them limit themselves to such devices as coupons, premiums, and trading stamps. In this they have no advantage over the independents except when the chains own their own coupon or trading-stamp system, thereby being able, if they want to, to pocket an extra profit or to pass on a saving to customers in the form of greater premium value.

10. *Accounting.*—The final common source of strength in chain stores lies in their accounting methods. Continual, automatic stock-taking and careful accounting are fundamentals in most chain systems. Many retail stores know little of these things. Druggists, for instance, are often primarily professional men, and only incidentally merchants. Many retail grocers are former salesmen who have had little chance to study accounting. Manufacturers of store equip-

ment are doing yeoman service in educating retailers in better methods of accounting, but the carefully organized chains have still the advantage over most independents. Accounting in the chain system is by no means an end in itself, but is used constantly to direct the selling campaign. A falling off in one store today must be accounted for, and if the falling off continues, something radical must be done about it. A good retail accounting system shows what lines are profitable and what are not, it directs attention to waste, it gives accurate costs of doing business, and reveals many other things which are vital to retail successes.

11. *Weakness of chain stores.*—The chain-store pathway is not entirely smooth. There are plenty of stones scattered around to trip the unwary. Not all chains are successful. Many have fallen by the wayside, and the reason usually has been—weakness in personnel. This difficulty has already been suggested. A hired manager is usually not so efficient as a man who works for himself. A great, machine-like organization is likely to have some weak cogs that weaken the whole structure. Employes who are too cheaply paid cannot be depended on to give the service that more self-respecting salespeople will give, even when the work is thoroly standardized. The constant problem of the chains is to get good managers. The human problem is the difficult one to solve, and the inability to solve it is usually the cause when chains go under.

Another weakness of chain stores is the temptation to expand faster than capital permits. One store is a success; the proprietor adds another. It, too, is a success. The owner seems to see unlimited easy money, and branches out faster than he is warranted in doing. This difficulty is certainly not a necessary one and most chains successfully avoid it.

12. *Meeting chain-store competition.*—The advantages of the chain store in competition are many and important, but this does not mean that the individual store owner who is suddenly confronted by chain-store competition need sell out to the chain system, or stoically stick to his shop and await a more or less lingering business death. In increasing numbers the independent dealer is joining with his fellows in cooperative associations, which give to their members many of the advantages of chain stores. The chain's advantages are largely due to the size of the buying units rather than to mere central ownership. As far as this is true, the cooperative buying associations will prove strong competitors of the chains. The cooperative groups are to be considered in more detail in the chapter on Substitutes for the Middleman.

Not all dealers can belong to cooperative groups, however. That the dealer competing alone need not despair is proved by the thousands who are doing business successfully in competition with even the greatest of the chains. Two bases of competition are open to him—price and service. As far as price may be based on quantity discounts in buying and on secret discounts the independent dealer cannot compete with large chains. But low prices based on quick turnover and low profits are as possible to him as they are to the chains. The independent usually does not try to compete on a strict price basis, however. As one chain-store official has put it:

> The chain store may be able to undersell the independent, but it can't "over-serve" him. The small profits of the chain-store business necessitate the most rigid economy in operating—economy which must be extended to the labor item. The labor item is almost an unsolvable one for the chain store, for low wages and loyalty rarely go hand in hand. The chain is likely to be deficient in two great fundamentals—personality and personal service—and these are the independent retailer's salvation.

13. *Learning from the chain.*—Many keen business men welcome chain-store competition because it wakes up the trade, starts people to buying new things and more things, and lifts the level of retail efficiency. If chain stores have done nothing else, they have been great educators of retail merchants. The dealer who keeps his eyes open and studies the methods of his chain-store competitor, unconsciously puts himself thru a course of training that makes him a better merchant and enables him to compete with the chain store on its own basis of service. There is no reason why any dealer cannot adopt the same means of cutting down expense that are employed by chain stores, except of course such savings as are attributable solely to large-scale organization. In many lines it is only the merchant who refuses to change his ways, who

is blind to new methods in merchandising, and who really prefers to complain rather than to compete, that need fear chain-store competition. The individual store owner always has the advantage in that his business is his own—it reflects his own personality; and if his personality is right, he can gain a personal hold on his trade that is unattainable by the paid manager of a mere link in a great machine-like chain of stores.

14. *Chain stores and the manufacturer.*—The manufacturer, perforce, must take a keen interest in the development of chain stores. If he is a national advertiser he often looks on the chains with distrust and suspicion. So many chains have built business on the basis of cut prices, particularly on nationally advertised goods, that the manufacturer often considers them a menace. Furthermore, the common practice of chains of putting out and pushing their own brands of package goods means a decreasing market for the advertised goods with which the private brands are in competition. Again, some manufacturers dislike the chains because the chain buyers often insist on prices lower than those that independents will pay.

On the other hand, the chains unquestionably provide a tremendous outlet for an enormous variety of manufactured products. Somebody must supply them. To some extent the chains are providing their own sources of supply thru acquired or controlled factories, but it is not conceivable that these factories will ever entirely, or even largely, supplant the need of goods from independent manufacturers. Thousands of manufacturers find in the chain quick, sure and profitable markets for their products; and, because of their size and their great influence in merchandising, the chains are bound to be considered carefully as possible channels of distribution by every manufacturer who has anything to market that the chains will handle.

REVIEW

What special advantages in making low selling prices do the larger chain store systems have? Are these advantages peculiar to chain stores?

What competitive advantages do chain stores have other than those advantages concerned with buying and with selling prices?

What are some of the most difficult problems peculiar to chain store organization which the manager of a chain of stores has to solve?

When a chain store system invades a town, the independent dealers already there are often fearful of the new competition. Why? Can the independents compete successfully? How?

CHAPTER VIII

THE RISE OF THE MAIL-ORDER HOUSE

1. *Significance of the mail-order movement.*—Selling by mail has developed to such an extent that it affects everybody who has anything to do with buying and selling. To the consumer it means the opportunity to buy thru new channels, which, either because of their novelty or because of real merit, are often more attractive than the old. It has opened to the country dweller larger selections of merchandise than have heretofore been available. The claim is made that buying by mail often means lower prices. The mail-order catalogs have in many instances created new wants and new methods of satisfying them. To the extent that the mail-order movement means a realignment of small-town retailing, the eliminating of some stores, and the changing of the functions and methods of others, with the many possible effects on rural communities, it is something of vital importance to every consumer and to every thoughtful student of marketing.

2. *Effect on retailers.*—The retailer sees in mail-order houses a new and strong competition. He frequently finds that they have created new wants on the part of consumers, which it is his duty and his oppor-

tunity to attempt to satisfy. He often sees, or he thinks he sees, in the mail-order establishments a menace to his continued prosperity and even to his continued existence.

3. *Effect on jobbers.*—Jobbers are affected in many ways by mail-order selling. Many mail-order houses buy direct from the manufacturer, and thus lessen the flow of goods thru the jobbers' warehouses. The catalog houses reduce the trade of the relatively small dealers in country communities. These dealers are the mainstay of the jobbing business, and a decrease in their trade means less trade for the jobbers.

4. *Effect on manufacturers.*—Many catalog houses manufacture part of the goods they sell and thus compete directly with the manufacturers. The catalog houses are also charged with being price-cutters and frequently with being antagonistic to nationally advertised and trade-marked goods. As far as this is the case they reap the opposition of the manufacturer. The lessening of consumption thru established retail channels affects the manufacturer in the same way that it affects the jobber. On the other hand, many manufacturers see in the catalog house a new market for an exceedingly large amount of all varieties of merchandise.

5. *Attitude of the public.*—Public opinion toward mail-order houses varies in its expression from cordial support to hysterical abuse. Much has been said and much has been written about them, but a great deal of it emanates from interested sources. A study of

marketing methods requires a dispassionate consideration of selling by mail, with particular reference to the following questions: What is its extent? What is its nature? Is it legitimate? What is its competitive strength? How can the local store compete? How can the manufacturer use it to his own best advantage?

6. *Extent of mail sales.*—The approximate total sales of ten of the leading mail-order houses in 1915 were $350,000,000. To this total Sears, Roebuck and Company alone contributed over $100,000,000, and Montgomery Ward and Company about $50,000,000. These figures are approached by the sales of such well-known houses as the National Cloak and Suit Company, the Standard Mail Order Company, Charles William Stores, and the Larkin Company. Various estimates indicate that anywhere from three to fifteen per cent of all commodities in the United States reach the ultimate consumer thru mail-order channels. The actual figure is probably much nearer the former than the latter of these estimates. By adding together the sales of the relatively few nationally known catalog houses, the thousands of smaller local mail-order establishments, the direct selling manufacturers, and the mail sales of the thousands of retail stores that encourage ordering by post, we should have a figure that would certainly run well over half a billion dollars a year. The enormous size of the sum demands careful consideration of the so-called mail-order problem, even if mail sales were less than

the common estimate of three per cent of all commodity sales.

7. *Mail-order houses not always large.*—Mail-order business is usually thought of as big business. It is big business in the aggregate, and many of the units in it are exceedingly large. Nevertheless, it is a mistake to think that mail-order selling is confined to a few great, well-known houses, or that the problem of mail-order competition for retail stores involves only the activities of great corporations. There are many thousands of relatively small houses which do business wholly or partly by mail. Their business is solid, steady and growing, and must be taken into consideration. Mail-order selling is not centered in Chicago or New York; it is to be found everywhere. There is scarcely a town in the country that does not make sales by mail, and on the average the business of the man who sells wholly or partly by mail is probably not larger than that of the average retail store. The mail-order business is made up of innumerable units—not of two or three or a dozen. It must be considered as a general activity and not as an exceptional expression of an occasional and freakish idea in marketing.

8. *Kinds of mail sales.*—That much selling by mail is on a comparatively small scale is shown by a consideration of the many different kinds of business houses that sell in whole or in part in this way. First, there are manufacturers who sell all their product to consumers or dealers direct by mail, or who combine mail orders with some other method of selling. Second,

there are retailers who may buy all their goods, and sell them entirely by mail or partly by mail, and partly over the counter, or by means of canvassers, or who may manufacture some of the goods that are later sold by the mail-order method. The two largest Chicago catalog houses are manufacturers on a considerable scale, altho for the most part they are middlemen. Thousands of retail stores the country over welcome mail orders. Most of the mail-order advertisements appearing in general magazines are those of manufacturers seeking to deal directly with consumers. The source of supply for the things that are sold by mail is not important, for the competitive problems and the economic significance of mail-order selling are the same whether goods are sold by manufacturer or dealer.

Third, there are jobbers doing an increasing business by mail, but their activities do not contribute greatly to what is known as the mail-order problem.

9. *Why goods are sold by mail.*—Many considerations induce dealers or manufacturers to sell by mail. Perhaps the most important is advertising. Until business men recognized that large numbers of people could be reached thru the printed word, there was no mail-order selling. Closely allied with advertising in the encouragement of sales by mail is the increased rapidity, security and cheapness of transportation and communication. Another thing is the increasing difficulty of obtaining the cooperation of dealers in pushing new lines of goods. In former times there

was plenty of room on dealers' shelves for new goods; nowadays the shelves are crowded, and a new competitive line is often established thru "regular" channels only with the greatest difficulty. The manufacturer of such a line is tempted to "go direct." This temptation is the greater because of the complicated problems of trade relations—price maintenance, for instance—which are likely to be encountered when sales are made thru retail stores. Costs of selling thru dealers are constantly rising, a fact which adds to the temptation to sell by mail. It is a popular, altho frequently mistaken, assumption that it costs little to sell by mail. Many dealers rush into mail-order selling without adequate knowledge of costs, tempted by the fact that it looks easy, only to find to their regret that their hopes of low costs and large profits are illusions.

10. *Who is a "legitimate" dealer?*—Twenty years ago the mention of mail-order advertising suggested "cheapness"—cheap magazines, cheap advertisements, cheap goods. The so-called "mail-order publications" were usually of low grade, filled with all sorts of questionable offers of tricks, games, agents' outfits and other things designed to appeal to the unsophisticated. Today the meaning of mail-order advertising and mail-order selling is entirely changed. The mail-order business is now recognized as a very real and a very important factor in retail competition. Because of its strength it is respected by all, and because of its success it is feared by many.

In the discussion of selling problems we hear the expression "legitimate dealer." A business magazine asked retailers: "Do you think it is good business for a manufacturer of advertised goods to place his line with everyone who will carry it, or should he try to protect the legitimate dealer?" Who is the "legitimate" dealer? The "legitimate" dealer ought to be anyone who sells honest goods in an honest way, and who serves the public. Some retail store owners, however, maintain that the specialty retail store dealing over the counter is the only "legitimate" dealer. To them all other forms of retail competition are "illegitimate"— the department store, the chain store, and more than all the others, the mail-order house.

This point of view is natural, perhaps, but not justified. When vaudeville first began to assume importance as a form of theatrical performance, the older branch of the business arrogated to itself the adjective "legitimate." This did not keep the public from patronizing vaudeville, or actors from appearing in it. The oldest occupants of any field of activity are always inclined to think that they are the "legitimates," and that any newcomer is an unreasonable intruder, without economic justification and to be fought by their united strength. Any marketing activity is legitimate if it serves the people in an honest way. Change is one of the characteristics of our civilization. Nothing stands still. New times demand new things. If the mail-order house deals in service, if it satisfies a real want, it is just as legitimate as the local retail store, and no attempt of the latter to hinder its development by legislative enactment or by coercion of manufacturers can be successful; local dealers must accept it as a legitimate competitor; they must make it the object of real competition instead of complaints.

11. *Anomalous attitude of retailers.*—One peculiar feature of the retail store owner's attitude toward the mail-order business should be noted. Some retail dealers' associations have unanimously adopted resolutions against the mail-order house, maintaining that it was threatening the whole economic structure of the country and breaking down the local retail market which is the basis of most American business. And yet many of the dealers joining in this denunciation eagerly accept the mail-order business that comes to them; they realize the possibilities of developing their trade beyond the boundaries of their immediate neighborhoods, and actively go out after business in the surrounding districts. Some dealers would try to make us believe that it is an economic wrong for a large organization to do a successful business wholly by mail, but that it is not wrong for the small dealer who sells also over the counter, to do as much mail-order business as he pleases. *Printers' Ink* quotes the following incident:

> An enterprising and thrifty retailer in St. Joseph, Mo., has gradually worked himself up into the mail-order business and now issues 30,000 catalogs at a time. Formerly regarded as an enterprising, ambitious retailer, no sooner does he extend his "sphere of influence" than he is classed as a mail-order concern, and *per se*, "unfair." Some wholesalers who

have been supplying him have been notified that henceforth they must choose between him and the other retailers of that region.

12. *Justification of selling by mail.*—Does mail-order selling really serve the people? We must start with the fact that the average mail-order business is just as honestly conducted as the average retail store; that its advertising is as believable, and its goods as fairly priced; that it is, in short, a fair and square merchandising business, making its original appeal on the basis of good goods at fair prices, and seeking to hold trade by a policy in which the customer's satisfaction is paramount. This is the way in which most mail-order businesses are conducted, as it is the way in which most local stores are conducted. Some mail-order advertising may be misleading, but this is equally true of some of the advertising of retail stores. There are black sheep in every business family; but the entire family is not judged by its dishonest members. Honesty and the desire to give the customer a little bit better than a square deal are the characteristics of the modern successful merchandising establishment, whether it sells its goods over the counter or by mail.

13. *Is mail-order selling a service?*—Whether the mail-order business really serves the people or not is tested by whether the people patronize it, not once, but many times. No business can continue to make large sales on a basis of misrepresentation, exaggeration and dissatisfied customers. The mail-order

houses continue to make large sales, and they hold a surprising proportion of their customers. An officer of Charles William Stores, a New York mail-order house, in 1916 made this statement:

> There must be some good reason why ninety-three and one-half per cent of the people who have bought goods from us in a given state have ordered on an average three and one-half times in the course of a year; there must be some good, sound reasons for the overmastering success of the mail-order business. There must be something fundamentally sound about a proposition that sells itself and keeps itself sold.

14. *Mail-order houses create business.*—It is sometimes argued that the mail-order house is only a new competitor for old business, that it creates no business, no new service. Were this true, it would be no argument against mail-order selling, compared with other forms of competitive marketing. Competition is free and everyone who uses honest methods is at liberty to get as much of the business as he can induce the public to give him.

But is it true that the mail-order house is not a constructive factor in merchandising? Many commodities are bought by mail that are not carried in local stores. Thousands of expenditures are made which increase the pleasure of living in country homes and which would not be made if the mail did not offer an easy way to learn of new things and to make suitable selections from large stocks. The spreading of information about new kinds of merchandise by mail-order distributors has raised the standards of living; it has put new comforts into countless homes; it has created new wants and then has satisfied them; it has opened minds and hearts and purses, and has resulted in unnumbered purchases that would never have been made except for its influence.

15. *Undue influence in selling.*—Some concede that mail-order selling *is* constructive, and that it *does* create new business, but assert that buying by mail leads people into extravagance. Even if this were true, it would not be an objection peculiar to mail selling. Are local retail stores eager to restrict the purchases of their customers? Do merchandisers refuse to sell without knowing first whether their customers can really afford to buy? Is not all competitive business conducted to increase consumption, to stimulate business, to build up large sales, and to earn the largest profits consistent with permanent success? It may be that the whole competitive system of industry is wrong if it does encourage undue buying; but if this is a fault, it is a fault of the entire system, and not simply of that tiny part of the system represented by the activities of mail-order distributors. When local dealers criticize the mail-order house on this basis they are criticizing it for doing successfully the very thing that most of them are trying to do—to sell honestly as many goods to as many people and to make as much profit as possible.

16. *Question of sales service.*—Mail-order selling often serves people in ways in which they are not served by other methods of selling, and frequently it gives better service than retail stores in the very fields

in which the retail stores ought to excel. Consider the single item of sales service, for example. How many retail salespeople can give the definite, usable information about the goods they handle that is ordinarily given in the catalog or advertisements of the man who sells by mail? A small town dealer wrote as follows to a farm implement manufacturer:

> I know now why I have been losing business to the catalog houses. I thought I knew my lines, but I don't. A farmer out in the country had been getting consignments pretty regularly at the freight station from one of the Chicago houses, and I wanted his business. This spring he was in the market for a sulky plow. I determined to get his order, and went out personally to his place and invited him to look over my stock as a personal favor. He came in, and I showed him your line. One plow interested him, and he began to ask questions about it. I told him all I could, and all that I had ever told anybody. But he wasn't satisfied. Before I knew it, he was telling me more about that plow than I knew myself. It was an interesting half-hour for me. I asked him where he had learned the implement business. He said he had never learned it; he had gotten everything he knew about the true inwardness of a sulky plow from the pages of Blank's mail-order catalog. That taught me a lesson. No, I didn't make the sale, but I'll never lose another for the same reason that I lost that one. If Blank can afford to take the time to tell his customers all they want to know about the things they purchase, I guess I can afford to learn my line well enough to tell my customers the same things. Send me all the information you have.

17. *Retailer's opportunity.*—The evidence that the mail-order business is legitimate does not constitute a plea to the public to purchase goods by mail. No dealer, merely because he is honest and eager to serve,

can expect customers to flock to him from competitors who are quite as honest and eager as he. Buying by mail is prohibitively tedious, formal and cumbersome for most people. The average buyer would far rather deal with a live person, with his fellow townsman and neighbor, than with an impersonal and distant corporation, provided the local dealer can give him the same service that the mail-order distributor gives him. The mail-order house ordinarily gets business only when the local store cannot give the service that the mail-order house gives, or when the customers of the local store do not know that it can give that service.

Selling by mail will not drive the local dealer out of existence. Both have their places, and both will continue to prosper. If the local dealer, however, is to get his due share of the business, he must give his best thought and energy to the task of competing with the mail-order house on its own basis of service, instead of to futile plans for the legislative prohibition or crippling of a method of selling that is just as valuable to him as it is to the distant house that competes with him for the trade of his district. If the mail-order seller or the local dealer is guilty of unfair practices in competition, he should be punished. But as long as both play the game honestly, neither one can strike at the business of the other thru the legislature without striking at the very base of the competitive system of industry to which they both owe their existence.

REVIEW

What are the more important things that have induced many manufacturers to try to sell direct to consumers by mail?

What proof is there that mail-order houses perform a real service?

Many retail store owners maintain that the local retail store is the only legitimate retail merchandiser. Is this true? What constitutes legitimacy in merchandising?

CHAPTER IX

MAIL-ORDER COMPETITION

1. *Competitive strength of mail-order houses in general.*—Mail-order selling has certain elements of competitive strength. These elements should be borne in mind both by those who use the mail-order method and by those who oppose it. By duly considering these elements of strength the manufacturer or dealer who decides to sell by mail will be able to organize along the lines of least resistance, and the local retailer, in combating mail-order competition, will be able to avoid wasting his shafts against the invulnerable parts of his competitor's armor.

2. *Chief point of strength.*—People patronize catalog houses chiefly because country general stores do not, and cannot, carry all the different kinds of goods and all the variety of styles and sizes in all lines that consumers demand. The country storekeeper has a limited capital. With the best of management he must spread out that capital very thin to meet even the ordinary demands of his trade; with less than the best of management and with extraordinary demands from his customers he finds himself unable to satisfy all the needs of the community. He can carry a few styles and sizes of enamel kitchen ware, for instance; but, if

he must carry also dry-goods, groceries, musical instruments and drugs, he has neither space on his shelves nor capital available, to carry enough enamel ware to meet all the demands of his trade. What is true of the country general store is true to a less degree of the small town specialty store.

The small dealer's inability to carry a sufficient stock in any one line to satisfy the demands created by national advertising and by the rising standards of living is an exceedingly important but often overlooked reason for the mail-order dealer's success. Tho the local merchant could, if he wanted to, supplement his stock by mail orders at the customer's request this does not put him on a footing of equality with the out-and-out mail-order house. A customer expects a retail store to carry stock. If the store does not have what the buyer wants, he often is unwilling to wait for the dealer to order it; he prefers to mail the order himself.

3. *Low capital and overhead charges.*—The mail-order house does not need to carry large stocks. Many of the bulkier articles listed in mail-order catalogs are not carried in stock at all. Orders for them are forwarded to the manufacturer, and shipment is made direct from the factory to the customer. This is one of the greatest advantages of the mail-order method of marketing. The local store must frequently tie up its capital in relatively large quantities of merchandise. When customers order by mail they expect some delay in delivery of the goods, and the

mail-order dealer has opportunity to obtain outside of his stock the articles ordered that he may not have on hand.

4. *A national business.*—The wide area of operations of the mail-order house frees it from the influence of purely local conditions of business depression. Only a wide-spread industrial or financial difficulty can seriously affect its business. If there were a prolonged strike of miners in the anthracite coal region of Pennsylvania, every retail store in Scranton and in the other towns of the district would suffer. If there were a mail-order house in Scranton, however, operating generally throughout the East, its trade in the anthracite region would be only a small part of its total business, and decreased returns from that district would not seriously affect its prosperity.

The area for development of the catalog house is practically unlimited. Operations can extend as far as the postal, telegraph, freight and express systems reach.

5. *Selling power of the catalog.*—The catalog of the mail-order dealer represents his entire line. The catalog is always accessible in the home of the customer. It is a much simpler matter to turn its pages than it is to gain a knowledge of the complete stock of a store by personal inspection. The mail-order customer, therefore, is likely to order a larger assortment of merchandise than the over-the-counter customer. In addition, the picture of the article in

the catalog is coupled with an alluring description. This is often more effective in making sales than is the mere sight of an article in a store, to which the customer's attention is not directed by the salespeople. If all retail clerks were real salesmen, this advantage of the mail-order catalog would not be so pronounced. The frequent lack of effective store salesmanship, however, often makes the sale a mere satisfying of the customer's expressed requirements.

The ease of ordering from a catalog and of making up an order in the quiet of the home is a factor in obtaining trade of those people who are unable or unwilling to take the time, and to put themselves to the inconvenience of going to stores to inspect stock and to place their orders.

6. *Low prices.*—Many people think that the chief strength of the mail-order house in competition is its ability to quote low prices on its goods. The general opinion seems to be that there is some inherent connection between the mail-order method of selling and the ability to sell at low figures. Some catalog houses offer many articles at very attractive figures, but other houses make no attempt to get trade on a price basis. It is worth while to analyze the price situation. Are low prices always possible in selling by mail, or, when they are offered, are they due to good management, size, or to some other consideration of which the catalog houses have no monopoly?

7. *Is mail-order profit low?*—There are three factors which enter into the selling price of any dealer—

first, the cost of goods laid down in his warehouse; second, his expense of doing business; third, his profit. We shall consider these factors in inverse order. Good mail-order houses operate on a basis of low profits and quick turnovers, but so also do the good retail stores. There is nothing in the nature of either kind of establishment which enables it to take a lower profit than the other and therefore to quote lower selling prices.

8. *Expense of doing business.*—The factor which is most within the power of the dealer to control is the expense of doing business. If he is careful of expenditures, if his business is run with the maximum of efficiency, and if he is expert in increasing sales without equally increasing expenses of operation, he ought to be able to undersell less efficient competitors.

There are certain obvious savings of the mail-order house which should reduce its expenses of operation. For instance, its business is usually (altho not necessarily) on a cash basis. This means reduced bookkeeping costs, no expense of collection and no loss from bad debts. The catalog house has no house-to-house delivery problem, an item that runs as high as three per cent of total sales in some retail stores. There is no expense for elaborate store display and no necessity for expensive store location. The majority of the employes do not come into contact with the public, and therefore it may be possible to utilize cheaper labor than the retail stores require. It should be remembered, too, that the catalog house ordinarily makes larger unit sales than the retail store, which means a minimum of certain overhead charges for each dollar of sales. With all these savings, and perhaps others, one might expect the expense factor in the catalog house's selling price to be lower than the expense factor in the selling price of the retail store. But to offset these many savings, the catalog house has a tremendous expense for advertising—so tremendous, in fact, that the total mail-order house expense is not infrequently considerably above the average retail store expense.

Exact figures to show expense of doing business are not available, but it may reasonably be estimated that in the ordinary country store (with which the catalog house is chiefly in competition) the expense of operation runs from sixteen per cent to twenty per cent of sales. Perhaps eighteen per cent is a fair average for stores of this class.

Mail-order expense is variously estimated. It is necessary to divide catalog houses into two classes: first, there are the great houses, selling immense quantities of goods and doing a country-wide business. The vice-president of Montgomery Ward and Company, some years ago, testified that it costs the mail-order house anywhere from sixteen per cent to twenty-six per cent of its sales to do business. A recent investigation of seven large mail-order establishments indicated that twenty-two per cent is probably the average proportion of sales in relation to expenses. A writer in the *Outlook* (January 26, 1916) estimated mail-order expense at twenty per cent of sales.

In the second class of catalog houses are the smaller mail-order dealers and the many direct-selling manufacturers. Their selling expenses are often very high, tho definite figures are not available. It is certain, however, that many dealers and manufacturers in this class are glad to buy a dollar's worth of business for twenty-five cents or even for more.

The house that sells by mail has not, therefore, any advantage which lowers its percentage of selling expense below that of its over-the-counter competitors. Even if the catalog house may in some instances have a lower actual expense of operation than the competing retail store, and thus be able to quote lower prices, it should always be remembered that the retail store's selling expense usually includes an item for delivery—the goods are usually quoted at a price which includes laying them down at the consumer's door. On the other hand, the customer of the catalog house almost invariably pays for his own delivery. For comparative purposes, therefore, this expense should be added to the other catalog house expenses.

9. *Most important element in price.*—If there is anything in mail-order selling, therefore, which permits the seller to quote lower prices than retail stores can quote, it must lie in the third element in selling price—cost of the goods to the dealer or to the direct-selling manufacturer.

In case of the manufacturer who sells direct, it is naturally assumed that the goods laid down in his warehouse have cost him less than they would cost the dealer who had to buy them from him. This would be true provided the cost of the goods to his sales department was the same as the cost of manufacture. But many manufacturers credit themselves with a profit both on manufacturing and on selling; they charge the sales department with an amount that represents both the actual cost of manufacture and the profit demanded from the manufacturing department; and the sales department is then expected to make still another net profit for the manufacturer. Because of this difference in procedure, it cannot be said that the direct-selling manufacturer can always start with a lower cost of his goods than the mail-order house that has to buy what it sells, altho probably in many cases he can do so.

10. *How size of the business influences prices.*—The majority of mail sales are not made by the manufacturer, but by the dealer. There is nothing in the nature of the mail-order house that gives it the power to command lower prices than any other kind of retailer can command. The mail-order house and the local retail store must pay the same price for their goods *if they buy in the same quantities.* The ability to buy in quantities nowadays is the most important consideration making for low cost of goods to the dealer. The jobber usually has a sliding scale of prices, and many manufacturers are willing to go over

the jobber's head and to make their lowest prices to anybody who can buy in sufficient amounts. The catalog house that can buy in maximum quantities, therefore, can get the minimum prices, as can the department store, the chain store, and the independent specialty store that is large enough to purchase in like quantities. If on account of lower cost of goods to the seller, a large mail-order house makes better prices than a small retail store, it is because one is a large buyer and the other is a small one. This fact should be obvious, but its repetition is made necessary by the popular belief that *all* mail-order prices must necessarily be low.

11. *Secret discounts.*—We have been speaking about the quantity prices that are an ordinary thing in trade. If the usual quantity discounts were the only price advantages of the large establishments that are able to buy in maximum quantities, the small dealer would not be seriously handicapped in competition, because in many lines the ordinary scaling down of prices for varying quantities is not large. The big buyer is sometimes able to force from the manufacturer a secret discount, and some people maintain that it bears the same relation to legitimate business that the secret rebate formerly did in transportation. For the sake of getting an order that is not otherwise obtainable, some manufacturers will sell a quantity of goods to a large mail-order house at a price that cuts their profits close to the vanishing point; indeed, manufacturers without adequate cost

systems have been known to sell their entire output to mail-order houses at a loss, blinded to the unprofitable nature of the business by the seeming advantages to be derived from the mail-order connection. This sort of thing, of course, gives the large mail-order dealer a decided advantage over the small local retailer who can command no such inside prices. But again, this advantage is not peculiar to the large mail-order house; secret rebates and other *sub rosa* forms of price discrimination are used to their own advantage by all classes of large distributors. The great department store and the chain of specialty stores are often in just as advantageous a position to obtain these secret price favors as is the mail-order establishment. This advantage, like many others, is one accruing from the factor of *size* of the business, and is no more inherent in the mail-order form of selling than it is in any other form of retailing.

12. *"Loss leaders."*—Mail-order houses cut prices on many nationally advertised articles on which quantity prices do not prevail to any extent and for which they must pay as much as local retail stores have to pay. This is not peculiar to mail-order houses, since the policy of offering "loss leaders" or of shading the profit on well-known goods in order to attract trade is confined to no one kind of retail dealer. If country dealers do not usually adopt this policy it is because they do not care to risk trouble with manufacturers who want their prices maintained, because their total business is not large enough to

permit much price cutting on some articles with the expectation of making up the loss on other sales, or because they believe that this policy is not good merchandising.

13. *Status of the small mail-order house.*—The small mail-order houses (of which there are many) labor under the same selling disadvantages as the small retail stores. The general statement that mail-order houses can usually undersell local retail stores rests on the mistaken idea that all mail-order houses are large, and on the fact that mail-order dealers ordinarily confine their operations to districts where they are not in direct competition with large local retail establishments that have the same purchasing power as themselves.

14. *Advantages of mail-order house not inherent.*—Mail-order houses enjoy certain competitive advantages which we have seen. The larger catalog houses have points of competitive strength which have nothing to do with selling by mail, but result from the size of the business or from unusually efficient management. Any large retail house or any efficiently managed store, regardless of size, could have some or all of these advantages if it wanted to. Low prices resulting from quantity purchases, secret discounts, and the principle of low profits and quick turnover, characterize the best mail-order houses and likewise many retail stores. The mail-order house, if it is large enough, can employ experts in all lines at large salaries; it can specialize in good merchandis-

ing; it can comb the markets for the best goods; it can buy skilfully; it can use the trade-building policy of guaranteed goods, easy exchanges and continual effort to please the customer in every possible way; and it can bring business by the kind of advertising that is almost one hundred per cent good. Many retail stores do the same things, and many others could do most of them if the stores were managed with efficiency equal to that which directs the more successful catalog houses.

15. *How the local store can compete.*—Like its mail-order competitor, the local store has certain points of strength in competition which lie in the nature of the business—they work for the merchant whether he is aware of them or not. The following are suggestive:

16. *Purchaser sees what he is buying.*—The purchaser likes to see what he is buying. He can go to the store and actually pick out the article he is to get. If he is dissatisfied with his purchase he can usually make quick and easy adjustment without going to the trouble of reshipping the goods, writing letters and waiting several days for the adjustment to be made.

17. *Quick delivery.*—The store and the consumer's residence are usually comparatively close together. Delivery can be made quickly. This, perhaps, is the greatest advantage of the local dealer—one that he should capitalize to the utmost. The mail-order buyer must ordinarily buy in compara-

tively large quantities in order to lessen the burden of transportation charges; the customer of the local store does not need to anticipate his needs—he can buy even the smallest amounts as he needs them. The overwhelming majority of consumers have no capital to expend in anticipating future needs; they must perforce buy for daily needs only, and they must, therefore, patronize their local dealers.

18. *Merchant's good-will.*—Particularly in a small town, the merchant is ordinarily on friendly terms with most of his customers. By right dealing he can readily build up a clientele of friends and acquaintances whose good-will is valuable. A long period of fair dealing will also establish a good-will for the establishment that sells at long range, but the influence of a distant dealer upon his customers can never be so strong as that which the local merchant has upon his neighbors.

19. *Personal service.*—As the patronage of the retail store is generally local and limited, the owner is in a position readily to adapt his stock to local needs, to avoid slow sellers, and to hold trade by catering to individual and neighborhood peculiarities. A men's furnishing store in a western town maintains a careful card record of the requirements of each of its regular customers. When a man enters the store to buy a hat, the salesman knows the sort of hat he usually buys, and immediately offers it to him; and when the dealer wants to dispose of an odd lot of shirts, he sends personal notices to his custom-

ers who wear the sizes included in the lot. No inducements of price elsewhere could permanently alienate the customers of this store.

20. *Appeal to community pride.*—The local retail store is an important factor in the business life of the community. Its owner is usually a resident of the town in which it is situated. Its employes are largely recruited from its immediate vicinity, and they form a most effective force of personal advertisers. Many towns exist chiefly because of the stores that form their nucleus; the stores make the towns. The local merchant can appeal to civic pride in urging support of home institutions against out-of-town competition. The civic consciousness of American communities is becoming a force to be reckoned with, and the retail merchant can use this spirit to his own advantage.

21. *Price competition versus service competition.*—The local retail stores that compete with catalog houses sometimes make price their appeal for trade. Many dealers advertise to meet any mail-order prices that are offered. When they are given an opportunity to figure on entire bills of goods, they are often able to convince the customer that the average local prices are at least as low as the average catalog prices. Even when some business is accepted on this basis at a reduced profit or at a loss, it is good advertising for the store and often results in insuring the future trade of the customer.

Service competition, however, is more common and usually more successful than price competition. The local dealers who complain of mail-order competition are not all incompetent merchants, but many of them are. Stores in which mail-order competition is continually complained of in terms of fear, hatred and hopelessness are often characterized by poorly selected stocks with many lines always entirely exhausted before reorders are sent, careless credit granting, slipshod salesmanship, untidy appearance, failure to use the display windows advantageously and poor advertising or no advertising at all. On the other hand, many of the local stores that are too busy to permit much complaining about mail-order competition show well-selected stock in which no line in demand is ever allowed to become exhausted, careful credit granting, alert salesmanship based on the evident desire to please, spick-and-span appearance, well-trimmed windows and the kind of effective advertising that meets the catalog houses on their own ground.

Perhaps the chief cause of failure of many stores to compete with city mail-order houses is inability or unwillingness to advertise effectively. One has only to compare catalog descriptions with the usual small town newspaper publicity to be convinced of this. In discussing catalog descriptions of mail-order goods, a retailer said: "Most of the descriptions are flowery stuff that would look silly if used by a local house." He was mistaken. Catalog descriptions are far from being "flowery stuff"; but even if they were, they sell goods; and the local dealer who refuses to advertise in the same way will probably continue to lose trade to those who know what advertising is for and how to use it.

It has been frequently suggested that the local dealer may compete with the catalog houses by obtaining mail-order business himself. The suggestion is worth considering. Many large city stores have established elaborate mail-order departments, but their efforts have not always been successful and some have found it unprofitable to continue their mail-order activities.

The retail store that wants mail-order trade, however, need not go after it with an elaborate catalog. Its mail-order activities should be primarily a service to those people who ordinarily buy the class of goods in which it deals. It should welcome mail and telephone orders for its regular goods and its specially advertised offers; it should provide prompt service for those who cannot come to the store to trade; it should issue small bulletins of "specials" for limited periods; in other words, it should do everything in its power to extend its influence as far as possible among the people who need the same kind of goods that its over-the-counter customers need.

22. *Basis of successful retailing.*—For the store that really wants to give service, that really wants to show its ability to compete with distant catalog houses, that really intends to get its share of the business, there are hundreds of ways of spreading its influence and increasing its sales. For such stores

there is no insurmountable problem of mail-order competition, and it is because the number of such stores is constantly increasing that we can confidently predict that the mail-order house will not drive the local retail store from the field. Some stores will succumb to mail-order competition, but they will usually be the comparatively weak stores, more or less inefficiently conducted, that could not hope for success under any circumstances. The store that does not fulfil its mission is bound to fail sooner or later, and it is not a very serious indictment of mail-order selling to charge the catalog houses with the business death of stores of this type. After all, most retail competitive problems involve primarily the problem of merchandising ability. To an increasing extent the local retail stores are showing the same merchandising ability that is the chief basis of the success of the great mail-order houses. To an increasing extent, also, each factor in retailing is asking for public support solely thru a straight competitive appeal built on the solid foundation of real service to the prospective consumer.

23. *Manufacturer's market.*—The opportunity for the manufacturer to find an outlet for his goods among the mail-order houses is indicated by an article in *Printers' Ink* (March, 1916). The author estimates that six per cent of all commodities sold in this country are ordered by mail, and that this means approximately a round billion of mail sales every year. He concludes:

It follows, therefore, that many hundreds of factories can elect to make goods primarily, if not exclusively, for mail-order distribution. They may canvass both fields. They will find that the old jobber-retailer channels are comparatively expensive to enter in a large way, and that buyers therein are perhaps slow to respond; but that such channels supply a stable outlet once they are properly entered. They may discover that it is much easier and less expensive to enter the field of mail-order manufacture, but they are likewise apt to learn that therein lies insecurity, anxiety, and the fiercest competition with those who seek to cut costs to the bleeding-point. But, whatever they may decide by whatever process of reasoning or the taking of a blind chance, the *choice* is there today; there is plenty of room in the six per cent field.

Having in mind the patent facts before us, it certainly does not seem to be the part of wisdom for any manufacturer, jobber, or retailer to rest on his oars in fancied security, feeling that the rapid development of the mail-order business is not a matter of special interest to him. For it is, in fact, of vital interest to every manufacturer and distributor, big and little. And right now is the time to think about it and most diligently to study its trend.

REVIEW

As a consumer you have probably made some purchases by mail. Why? If you could have bought the same things in a local retail store, what induced you to make the mail purchase?

What do you think is the relative importance of the following factors in the great growth of the mail-order business: low prices; good advertising; quality of goods; selection of goods; ease of ordering? Are there other factors of importance?

When a country store succumbs to mail-order competition, what are usually the causes?

If you were conducting a retail store that had to meet severe mail-order competition, what natural points of competitive strength would you take advantage of, and what fundamental policies and methods would you use in attracting and holding trade?

To what extent and in what way can the average retail store develop its own mail-order department?

When mail-order prices are lower than the prices of local stores, what are ordinarily the reasons?

CHAPTER X

THE RETAILER AND NATIONAL ADVERTISING

1. *Problem of buying connections.*—In the relations existing among manufacturers, jobbers and retailers an important source of misunderstanding as well as an important opportunity for effective cooperation is national advertising. In all lines of business the dealer is continually solicited to handle the goods of the manufacturer who advertises his goods to the consumer and who urges the dealer to serve as the medium thru which the demand created by the advertising can be satisfied. The great majority of advertisements in general magazines, in street cars and on billboards is intended to send the reader to a retail store to ask for the things of which he has read.

Many trade problems are here involved. We are concerned at present only with those arising in the relation between retailer and manufacturer. What is the retailer's point of view toward all this activity, which in part is supposed to be in his own interest? To what extent can the manufacturer expect retail cooperation in pushing advertised goods? Does national advertising mean manufacturers' domination of the distributing system? What is its influence on the development of more chain stores, more direct mail sales, and other possible realignments of the methods of reaching the consumer? Probably no other modern movement in selling is of as great significance to manufacturers, dealers and the public alike, as the growth of national advertising.

2. *What is national advertising?*—The term *national advertising* is conveniently used to refer to the advertising by a manufacturer of identified, trademarked goods with the purpose of sending readers to the retailers for the advertised goods. The term is not accurate, because the advertising may be merely local or sectional instead of national, and because manufacturers who deal directly with consumers thru their own retail stores or by mail may, and do, advertise nationally. As long as we understand the arbitrary and customary meaning of the term, however, it will serve our purpose.

The problem of national advertising is not a problem of package goods versus bulk goods. Advertising has firmly entrenched package goods. Non-advertisers and advertisers alike use the modern, cleanly, convenient method of selling goods in small containers—at least in such lines as groceries and drugs, in which the package plan of marketing is practicable. The problem of national advertising to be considered here is that of package goods, branded, identified and advertised by the manufacturer, versus package goods not so advertised. In this latter class the goods may bear the manufacturer's name and trade-mark, they may bear no marks of identification, or they may carry the private brand of a dealer. They are alike in that they are not backed by the advertising of the manufacturer, directed toward the consumer for the purpose of sending the consumer to retail stores to make his purchases.

3. *What advertised goods do for the retailer.*—The manufacturers who back their brands with national advertising believe that they are entitled to the enthusiastic cooperation of the retail trade for many reasons. They maintain that the dealer who handles their goods is directly benefiting himself, and that the growth of national advertising means more satisfaction for consumers, more profit for dealers and more stable and satisfactory business conditions for all. We are to consider some of the arguments advanced in support of this contention.

4. *Claim of quality.*—It is maintained that nationally advertised goods are of known and stable quality. The consumer has confidence in them because he knows what he is getting. Past experience with such goods has familiarized him with them, and he can buy quickly, conveniently and confidently by name. The quality is ordinarily high because advertising aims to produce a large volume of sales, and the large scale business permits the employment of the best designers, the highest skilled executives and operators, the best machines and the other efficient agents that make for high quality in the output. When this quality has once been established, it must be maintained if the manufacturer is to achieve permanent success. The consumer who has tried the

goods and found them satisfactory, purchases them repeatedly with confidence and renewed satisfaction. The handling of goods of this character is particularly advantageous in a store's appeal for new trade. A transient in a city or a newcomer in a community who has worn a certain brand of clothing, for example, does not hesitate to deal with a strange store that handles the same brand. A store that deals in well-known goods thereby establishes itself in the public mind as a reliable, reputable establishment. A trade paper recently said:

> The retailer who ignores the powerful influence of advertising is completely out of tune. That advertising has brought about a stable condition in buying and selling is evident at every turn. Whether it be an incubator, a thresher, a breakfast food, a collar, or a cigar—people want to buy and duplicate by name. They don't want nameless unknowns.

5. *What the opposition says.*—Those who oppose advertised goods say that national advertising is no proof of quality—that brands originally of good quality deteriorate after the public has been made familiar with them. It is unfortunate that this criticism is sometimes justified. A few manufacturers have made the mistake of thinking that when the demand has been created, it will continue even tho the original high quality of the goods may be shaded a trifle. This is exceedingly poor policy. Advertising alone never has made and never can make a permanent success for any manufacturer; but advertising plus quality is a winning combination. Most advertising

manufacturers thoroly realize this, and the few who do not, suffer for their folly.

The opponents of advertised goods also maintain that many unadvertised goods are just as well-known and just as high in quality as advertised goods. They are right. Advertised goods have no monopoly in quality, nor even in public favor. There is at least one firm of non-advertising wholesalers and manufacturers of men's furnishings, for example, whose name on goods means just as much to buyers in general as the name of some advertising manufacturer. But in comparison with the advertised goods that are known to the public the number of unadvertised brands that are equally well-known is exceedingly small.

Finally, the critics of advertised goods say that the handling of such goods is not the chief thing in establishing a good reputation for a store. When the people of a community have had an opportunity to observe the conduct of a store during a considerable period of time this is quite true. Right dealing without advertised goods will hold trade, just as wrong dealing even with advertised goods will bring failure. When a store appeals to transients, however, and when it tries to attract new customers, advertised goods give it a decided advantage.

6. *Value of the manufacturer's name.*—The merchant who handles advertised goods is apt to find that the prestige of the manufacturer helps him sell

the goods. The trade paper, *Men's Wear,* recently quoted the following statement of a store owner:

> Three years ago I sold $700,000 annually. Today I am selling $1,000,000. Part of this, not all of it, is due to the fact that I sell and advertise Blank's clothing. My name on my store in my town is worth a lot more than theirs; I could sell it for $250,000. But their name on their clothes is worth a lot more than mine. My customers know that I do not make clothes, and the name of Blank on the clothes answers every question any man might be inclined to ask. The combination of my name on my store and their name on my clothes in my town cannot be beat.

Some store owners, on the contrary, maintain that their own names on the goods are worth much more to the public than the names of manufacturers. This belief is responsible for many of the private brands carried in retail stores. If a store operates strictly on a "satisfaction or money back" basis, and if the public has become familiar with this policy, that store's name without question is sufficient guarantee of quality to the old customer. To the new customer, however, it means little or nothing. In seeking new trade, the owner's name is less potent in establishing public confidence than the names of the manufacturers of nationally advertised brands. In the past many of the largest stores have refused to push advertised goods, preferring to establish their own brand name. There now seems to be a movement away from this attitude.

7. *Volume of sales.*—More sales, it is claimed,

can be made of advertised than of non-advertised goods. People are attracted to the store not only by the dealer's own advertising, but also by the manufacturers' advertising. Assume that there are two stores in a town in the same line of business, both of them operated with equal intelligence and ability, and both of them equally prominent and equally favored by the public. If one handles nationally advertised goods and the other does not, it is fair to assume that the former would do the larger business, simply because both the dealer's and the manufacturers' advertising would be working for it; while the latter would be aided only by its own publicity. Advocates of non-advertised goods contend, on the other hand, that the effectiveness of national advertising is overestimated; that in some towns few people read the general magazines, and that the "demand thru national advertising" idea is largely a fiction. This is a question of fact. Poor, scattered, half-hearted advertising by a manufacturer of course does not create much demand for his goods. But if goods are advertised effectively, persistently and widely in mediums circulating in the dealer's community, there is no denying that a tremendous demand can be created.

8. *Lower selling cost.*—It is said that nationally advertised articles can be sold more quickly and easily than non-advertised goods. The customer who asks for a definite kind of razor, or shoes, or breakfast food knows exactly what he wants; the salesperson has only

to wrap it up and hand it over the counter; he need spend no time in convincing the customer of the merits of the article. The time spent in making sales is a big item of expense in retail stores, and stores that are operated efficiently are constantly trying to find ways of helping the clerk to eliminate waste motions, waste steps and waste minutes. It is certain that the selling of well-known standard goods can be accomplished in less time, and therefore with less expense, than the selling of unknown brands. *The Retailers' Men's Apparel Magazine* says:

> Retailing of advertised goods is frictionless. The advertised brands are called for by name—there is no dickering, no uncertainty to buyer or seller; the sale is closed quickly. Additional profit in advertised goods lies in the time saved in waiting on customers.

There is no argument against this contention. If goods are really effectively advertised by the manufacturer among the people who trade with any store, that store can save time by selling the brands that are called for. Of course if any store's customers are not reached by the mediums carrying a manufacturer's advertisements, the manufacturer's goods might just as well be unadvertised so far as that store and its patrons are concerned. In such a case, the goods must take their chances with other unknown brands.

9. *Quicker sales and more turnovers.*—If nationally advertised goods can be sold more quickly and with less expense than others, and if there is more de-

mand for them, their sale should result in more turnovers of capital and larger profits than can result from the sale of unbranded or privately branded lines. This should be true even if the profit on each sale of the advertised brand is less than on each sale of the non-advertised brand. Suppose that there are two similar articles, one advertised and the other not advertised. Each sells to the consumer for ten cents. On the former the dealer gets a gross profit of two and one-half cents; on the latter, of five cents. Assume that there is real demand for the advertised line, and that the dealer can sell one hundred pieces of it during the time it takes him to sell twenty-five of the other. His gross profit on the advertised brand would be $2.50; on the non-advertised brand, $1.25. It should also be noted that nationally advertised goods are usually more staple than others; they do not often have to be closed out at the end of a season at a loss or at a greatly decreased profit. Even a small reduction in the usual price will ordinarily move them readily.

10. *Manufacturers' selling aids.*—One of the strongest arguments for nationally advertised goods is that the retailer who handles them is aided in many ways in his advertising by the manufacturer. Practically all progressive retailers are now convinced of the desirability of local advertising for themselves. Preparing effective advertisements is difficult, however, and many retail advertisements are weak and ineffective. The advertising manufacturer is usually

glad to aid the dealer in his advertising. He sends him suggestions for copy, not only describing the manufacturer's goods but also the other lines in the dealer's stock; he furnishes cuts of his goods, electros for complete advertisements, street-car cards, window displays, inside store signs of all kinds, form letters to go to the dealer's customers, booklets and many other kinds of advertising.

It is sometimes said that much of the advertising material furnished by the manufacturer is worthless, and that, when it is not worthless, it is ninety-nine per cent advertising for the manufacturer and his goods, and only one per cent advertising for the retailer and his store. There has been too much basis for this criticism of the value of the manufacturer's advertising helps. But the situation is changing. More and more the manufacturer is trying to give advertising aid that will help to advertise the dealer first and the manufacturer second. The necessity of making a store's advertising individual and characteristic of the store's spirit and purpose is being increasingly realized, and the progressive manufacturers are now giving advertising service that really serves.

11. *Customers resent substitution.*—Many customers resent substitution, and the store that offers something "just as good" when an advertised brand is requested, loses good-will and trade.

This is undoubtedly true, and yet substitution is no crime, even tho some manufacturers would try to make it so. To try to sell a substitute when a customer asks for a certain manufacturer's goods is not "stealing the market" of the manufacturer. If a stranger desiring a certain brand of goods were to go into a store solely because he knew he could find the desired brand there, and if the salesperson were to try to sell him something else when the desired article was really in stock, there would be some question of the ethics of the clerk's action if the clerk knew of his sole motive for entering. But such cases are very rare. Ordinarily a customer visits a store because the store is known to him, or it is convenient, or it has been recommended to him by spoken or printed advertising. If he asks for some specific thing, and if the merchant can sell it to him and is ready to do so, all well and good; but if the merchant prefers to sell or to try to sell something else, he is at perfect liberty to do so, unless of course he has previously accepted the exclusive agency in his town for the article asked for. If he has an exclusive agency, honesty requires him to do his duty by the manufacturer; otherwise the question of substitution involves neither law nor ethics. The only question is one of business policy; the merchant must balance against his desire to sell a substitute, the possibility of losing the customer by reason of the attempted substitution.

12. *Arguments against national advertising.*—There is no unanimity of opinion with regard to the advantages of nationally advertised goods. Many manufacturers prefer to sell their goods unbranded,

or, if they brand them, to let them stand their chance in the market without advertising behind them. Many dealers prefer not to handle advertised goods. Some of the reasons for this attitude of certain dealers have been shown. Among others are the following:

13. *Higher cost and less profit.*—Some merchants contend that nationally advertised goods cost the dealer more than similar unadvertised goods, and give him a smaller profit. It is maintained that often advertising does not pay for itself and that the manufacturer makes the dealers pay for it; or, if the advertising does pay for itself, the manufacturer creates a strong demand thru his advertising, and then, in order to make a greater profit for himself, uses the demand as a club, and forces the dealer to handle his goods at a very narrow margin of profit.

It is true that some nationally advertised goods give the dealer little profit on each sale. This has never been proved to be generally the case, but, even if it were, the volume of business resulting from steady and large demand should result in greater total profits than could be obtained from a smaller total business on unadvertised goods which might give a larger profit on each sale. The *New England Grocer and Tradesman* says:

> Taking the trade as a whole, the profits are better on nationally advertised goods, and when the grocer considers the volume of these goods which he can sell and the ease with which the sales are made, he must admit that they are money-makers of the best description.

The objection that manufacturers use "big-stick" methods suggests some inconsistency in the arguments of the opponents of advertised goods. If advertising by manufacturers does not create a demand sufficient to bring a considerable amount of trade to the store, how can any dealer be forced by this non-existent demand to carry the advertised goods? It is useless to argue that advertising does not create demand. It does. Unfortunately a few manufacturers do use advertising as a club to beat the dealers into line. The number of such manufacturers, however, is small and they will disappear entirely as dealers and manufacturers come the better to understand one another and to appreciate the true function of national advertising in its relation to distribution.

14. *Dealer should work for himself.*—It is sometimes contended that the handling of advertised lines prevents the dealer from building up his own business, independent in every way of the favor or fear of some distant manufacturer. If his goods are unbranded, or if they carry only his own private brand, when he advertises he advertises only *his* goods and *his* store. When his selling policy and his sales service create good-will, it is good-will solely for *his* establishment. By fair dealing he can develop public confidence in his opinions and in his offerings; his customers will learn to rely on him instead of on the name and reputation of some manufacturer who tries to use him as a go-between. Some merchants believe,

or say, that advertised goods are really sold by the manufacturer, and that the dealer acts merely as a slot-machine; therefore, to the extent that the dealer refuses to handle such goods he becomes a real merchant, an independent business man, and not a mere machine, a mechanical distributor of goods which he stocks and sells only because the manufacturer creates a consumer demand for them.

This contention contains a germ of truth. The dealer should in every way possible try to build up an individuality and a personality for his business. He will be wise, however, to balance against the slow, uncertain process of building up prestige unaided by manufacturers' advertising and good-will, the rapid, easy development of a profitable business and of a reputation as a high-grade merchant dealing in reputable merchandise, which will follow the pushing of the right kind of advertised brands.

The argument that the dealer in advertised goods is a mere machine, however, is untenable. In a certain sense every retail dealer and every other kind of middleman is a machine; at least he is part of the machinery of marketing. Yet no retailing can be machine-like. Irrespective of the kind of goods carried, every successful storekeeper is a real merchant. Those who fear that they may lose their individuality and independence by handling trade-marked goods may be reassured by the evidence of countless successful, bustling, intensely individual retail shops where there has been full realization of the advantages of handling goods backed in public by the manufacturer.

15. *Basis of retailer's conclusion.*—In view of the arguments for and against advertised goods, should dealers handle them and should manufacturers push them? From the dealer's point of view the arguments seem to favor such goods. Advertised lines have certainly stimulated retail trade. They have taught people to want more things and better things. If manufacturers' advertising were to be discontinued, it is reasonable to expect that nearly every retail line would show a great falling off in trade. Statistics gathered from various sources indicate that the majority of retailers favor nationally advertised goods. Salesmen who have tried to sell both advertised and non-advertised articles to dealers report generally in favor of the former because of the greater ease with which dealers are interested.

Perhaps the general conclusion regarding the proper attitude of the retailer toward this question might be formulated as follows: If goods are effectively advertised by the manufacturer, if there is a real demand for them, and if the profit is such on each sale that the total business will yield a satisfactory return considering the amount of capital invested and the time required to turn it over, then by all means handle advertised goods. If the advertising, on the other hand, is not effective enough to create a real demand, or if the profit is impossibly small, the dealer cannot be blamed for not being enthusiastic about the manufacturer and his goods. The retailer must solve the problem on the basis of, first, service to his customers; second, profit and other forms of immediate returns to himself; and third, the general effect on his business now and in the future.

16. *Trend of trade toward national advertising.*—Many manufacturers who do not brand and advertise their products find a ready market. There is no doubt that the non-advertising manufacturer can sell large quantities of goods in channels that are eager for unbranded or privately branded lines. Nevertheless, there are indications that these channels are shrinking. A constantly increasing proportion of manufacturers are branding their goods and pushing them by advertising campaigns, and this seems to be the trend of trade. The opportunity of building a permanent good-will for himself and his goods among consumers is drawing many a manufacturer into the ranks of advertisers. The chief reasons are, perhaps, the following: (1) the desire to "control" the market—to be sure of sales, thru consumer demand, regardless of antagonism or indifference of dealers; (2) the desire to build a large volume of sales thru advertising, which often could not be built if the unbranded goods were left solely to the mercies of dealers; (3) the growing favor of consumer and dealer toward goods that the manufacturer believes in, proving his belief by putting his name and brand upon them and by pushing them in the market by all means at his disposal.

REVIEW

If you were a manufacturer of nationally advertised goods, what arguments, based on the advertising, would you use to induce dealers to handle your product?

When a retailer is opposed to handling advertised goods, what are usually his reasons? Can they be successfully answered? How?

Many manufacturers who formerly did not advertise their goods and who trusted entirely to dealer effort to create consumer demand are now trying, in one way or another, to do their part in making their goods known to consumers. Why? Fundamentally, what does advertising do for a manufacturer?

CHAPTER XI

THE JOBBER'S SERVICE

1. *Jobber's service little understood.*—We have defined a jobber as one who buys, usually in quantities, for the purpose of selling the same goods again, without alteration to other dealers. The consumer seldom knows him. The average individual who is not engaged in merchandising may have some realization of a dimly outlined distributor behind the retailer, who in some vague way takes a profit to which he has but a questionable title; but his ideas about the jobber are far from being well-defined, and it is likely that he could not name half a dozen houses conducting a strictly wholesale business.

Because the jobber does not closely touch the consumer, there is little general interest in his activities. There are hundreds of books and articles about the manufacturer and the retailer, but very few about the jobber. Partly because of the general ignorance of the jobber's service, a suspicion has arisen that his service is uneconomical and not worth the money that is paid for it. When the middleman is attacked it is usually the jobber who has to bear the brunt of the criticism. He does not want to be shielded from just criticism, but he is entitled to fair judgment based on the facts of his service and not on guesses and vague suspicions.

2. *What are jobbing lines?*—We are to consider chiefly the jobber of manufactured products. All manufactured goods are not distributed thru jobbers. In some lines the jobber is losing importance; in others he never was important. In at least four great staple lines, however, he maintains the important position that he has held for many years. These four lines are groceries, hardware, dry-goods and drugs. In each of them the retail dealer must carry a tremendous variety of goods, prepared by many different manufacturers. When such is the case, the business ordinarily gives the jobber an opportunity for usefulness, and the goods handled are commonly known as "jobbing lines." Such industries are to be the subject of the present discussion of the jobber's service and the jobber's status. Groceries, hardware, dry-goods and drug sundries are not the only jobbing lines, altho they probably are the most common; nor should it be understood that all the business in so-called jobbing lines passes thru jobbers.

3. *What is the jobber's pay?*—Does the jobber earn his pay? His compensation is not so great as is often supposed. For instance, an article intended to be sold to retailers at $4.00 a case may be billed to the jobber at $4.00 less ten per cent. The jobber pays $3.60 for this case of goods, and sells it for $4.00; hence forty cents, or ten per cent of the selling price, is his gross profit on the transaction. He

handles many articles, particularly in the grocery trade, on this narrow margin. Sometimes his profit is less. A well-known brand of widely advertised soap, for example, is handled by the jobber for only a trifle more than eight per cent gross profit. In other lines the profit is larger, running sometimes as high as twenty-five per cent. Figures are not available to show the average jobber's gross profit on all lines of goods, but probably it is not greatly in excess of fifteen per cent. Out of this he must pay the expenses of conducting his business, ranging between six per cent and fifteen per cent of his sales; he must earn a return on the capital invested, and he must have something left as net profit if he is to continue to run the risks of his calling. What return does he make for the amount he is paid?

4. *Jobber a specialist in marketing.*—From the manufacturer's standpoint, the service rendered by the jobber is that of a specialist in distribution. The jobber is in business solely to buy and sell goods. He knows the trade intimately; he knows the demand and how to satisfy it; he knows what will sell and what will not sell; he has a clientele of relatively permanent customers; he provides a ready-made market for the goods of the manufacturer who can obtain his cooperation. The manufacturer—at least the smaller manufacturer—is a specialist in manufacturing only; he is rarely skilled in marketing, and ordinarily he finds it much cheaper to use the jobber's services than to attempt the expensive process of studying and

reaching the retail trade without the jobber's help.

5. *Jobber has ready-made sales force.*—The jobber provides a ready-made selling organization for the manufacturer's goods. There are approximately 300,000 retailers in the United States dealing in foodstuffs. Every one of these retailers is visited frequently by one or more of the many thousands of jobbers' salesmen. If a manufacturer were to abandon the jobber and to attempt to sell a competitive line of groceries to the retail trade solely thru his own salesmen, he would need not less than 300 men to cover the country properly. On the other hand, if he used the jobbers' selling forces and confined his own sales activities to keeping the wholesale trade in line, he might get along with as few as thirty salesmen. The enormous difference in selling cost between these two methods of marketing is obvious.

6. *Jobber cultivates market intensively.*—The jobber can afford to cultivate the market much more intensively than any except the very largest of manufacturers. A salesman for a manufacturer making only a single article—catsup, for instance—could not afford to call on the small dealers or to go into the small towns, because his sales to each dealer or in each town would not pay his expenses. Comparatively large individual orders are necessary when a manufacturer's goods are sold only by his own salesmen to the retail trade. The jobber's salesman, however, deals in a hundred or a thousand articles. His sales of catsup to each small dealer may be very

small, but the order for catsup is part of an order for many other things, so that the total sale pays a large enough profit to justify the expense of the solicitation. There is no dealer so small that he is not visited frequently by jobbers' salesmen.

7. *Storage service.*—Retailers who are making the greatest successes are alive to the necessity of keeping their stocks as small as possible so that the ratio of sales to average stock carried may be high. They wish to purchase frequently and in small quantities. In some lines the perishable nature of the goods adds another inducement for small and frequent purchases. These considerations suggest the necessity for many centrally located warehouses to get goods quickly and conveniently to retailers. If the manufacturer sold direct to the retailer he would have to maintain such warehouses himself. By dealing thru jobbers he is saved this expense. The warehousing function is one of the most important and expensive that the jobber performs.

Another possible saving to the manufacturer thru use of the jobber is in shipping charges. The manufacturer who ships direct only to the jobber can effect the savings usually resulting from the exclusive handling of relatively large shipments. The routing and packing charges for a few large orders are often much less than similar charges for many smaller orders.

8. *Service in carrying accounts.*—The jobber frees the manufacturer from the problem of retail credits.

Taking our illustration again from the grocery field, we find that the manufacturer with a complete national distribution, if he dealt direct with retailers would have to carry the accounts of considerably more than a quarter of a million dealers. The expense of bookkeeping, of the adjustment of credit relations, of collecting, and the losses from bad debts would necessarily be very great. On the other hand, the manufacturer of a grocery specialty who dealt only with jobbers would have not over 2,500 accounts; it would be comparatively easy to obtain credit information on each customer; and clerical and other similar items of expense could be cut to a comparatively low minimum.

9. *Drop shipments.*—Manufacturers who sell thru jobbers do not always make use of all these forms of the jobber's service. For instance, the practice of making "drop shipments" frees the jobber from the actual handling of the goods. "Drop shipments" are made direct from the factory to the retailers, on orders taken either by the jobber's or the manufacturer's salesmen; the shipments, however, are billed by the manufacturer to the jobber; the jobber takes all the responsibility for collection; and the financial arrangements between jobber and manufacturer are exactly the same as they would be if the goods were first shipped to the jobber and then reshipped by him to the retailer.

Many manufacturers, while relying on jobbers for the bulk of their business, also send their own salesmen to call on retailers. If the manufacturer's policy is to protect the jobber by giving him his profit on all goods sold to his customers, the manufacturer's salesmen are chiefly trade missionaries, employed primarily to talk the manufacturer's goods to the retailers and to aid the jobbers' salesmen in taking orders. If these manufacturer's salesmen themselves take orders from retailers, the retailer is asked to name the jobber thru whom the order is to go; the salesman sends the order to the jobber named; the jobber gets his regular profit on it, and the order is filled either from the jobber's stock or from the factory direct.

Besides these two common modifications of the ordinary method of marketing thru a jobber, there are other ways in which some manufacturers vary the usual forms of the jobber's services. Nevertheless the jobber stands ready to give the kinds of service that have been mentioned. Is this service worth what is paid for it? Could the manufacturer perform it for less? In many cases, no. It is true that a large number of manufacturers do not deal thru jobbers; some of their reasons are to be considered in the next chapter. But the fact remains that the jobber is in a position to give valuable and cheap service in connection with many kinds of manufactured goods, and that the manufacturer who can obtain his cooperation has enlisted the support of an efficient and an economical selling aid.

10. *How the jobber serves the retailer.*—Altho

the fact that the jobber lowers the cost of wholesale distribution of many manufactured articles is an important point in his defense, his chief justification is found in the fact that his services make possible the existence of the thousands of neighborhood retail stores which our buying habits demand. The best way to understand what the jobber does for the retailer is to imagine a typical successful store of the smaller sort—a neighborhood grocery store, for example. This store has on its shelves possibly 1,000 or more different kinds and brands of goods. They are usually made by several hundred different manufacturers. The store has been buying its stock from three or four jobbers. Now suppose that all the jobbers are eliminated overnight. The retail merchant wakes up some morning to find that there are no more jobbers; he must buy every item in his stock direct from the manufacturer. What would be the effect?

11. *Difficulty in keeping complete stocks.*—The retailer in such a case would have great difficulty in keeping complete stocks in any line. When buying from a jobber he can keep a memorandum of needed supplies, and give a lump order when the jobber's salesman makes his rounds. Even with this easy method of ordering, the average retailer finds it exceedingly difficult always to have on hand a supply of even the commonest staples. With no jobber to supply him, the necessity of constant reordering from many manufacturers would be an obstacle to the retailer's success which could only be avoided by an

elaborate and expensive system of stock records and purchasing procedure.

12. *Necessity of seeing many salesmen.*—The actual time spent in seeing the salesmen of several hundred manufacturers or in ordering from their catalogs would be enormous. Under the jobbing system, the retailer finds that a great part of his time is taken up with seeing competing jobbers' representatives and the salesmen of the comparatively small number of manufacturers that sell direct. With the jobber eliminated, only the largest stores, employing many responsible buyers, could survive.

13. *Unbalanced stocks.*—The retailer would have great difficulty in keeping a well-selected and a well-balanced stock. The average dealer, necessarily without specific knowledge of the quality and selling value of every competing line in his stock, would be importuned constantly by a horde of salesmen to stock large quantities of one line at the expense of another. One of the greatest services rendered by the jobber is the aid his salesmen give the retailer in keeping a carefully selected, carefully balanced stock of goods. The jobber is keenly aware of the necessity of cultivating the continued good-will of his trade; he knows that his own success depends on each of his customers; he knows that the secret of retail success is largely a matter of minimum stocks, quick turnovers of capital and frequent purchases. With the jobber gone, it is not to be expected that each one of a multitude of competing manufacturers would

have the same solicitude for the individual retailer's continued success that the jobber now has for his customers. The jobber ordinarily does not push any one kind of goods. He tries to build up the retailer's business as a whole, and he renders valuable service by aiding him with all kinds of buying and selling plans.

14. *Need of more capital.*—In many lines the retailer dealing direct with the manufacturer would have to purchase in much larger quantities than if he bought from the jobber, because the solicitation of small orders would not pay the small one-line manufacturer. The dealer would require larger capital than is now needed in his business. If his business remained of the same size he would have more capital tied up in goods, he could turn his capital less frequently and consequently his profits would be lower. He would either have to go out of business or his prices to his customers would have to be greatly increased.

15. *More storage space required.*—Larger purchases in each line would require increased storage space. The small dealer now relies on the jobber to carry his surplus stock for him. The warehouse function of the jobber thus works to the great advantage of manufacturer and retailer alike. As has already been said, the wise dealer buys often and in small quantities, and not only turns his capital many times a year, but also does business with a minimum

of overhead expense. Greater warehouse charges would increase his own cost of doing business, and would be reflected either in his prices to the public or in decreased profit for himself.

16. *Credit arrangements would cease.*—Without the jobber there would probably be a cessation of the credit arrangement thru which the jobber furnishes many a retailer with most of the capital with which he conducts his business. The struggling merchant who shows ability can usually find some jobber to back him until he gets on his feet. In every town there are retailers who would have to close their doors tomorrow if it were not for the leniency and good-will of a jobber. The jobber often extends the retailer credit, not from mere good nature, but because it is good business to help the man who gives evidence of being able to succeed. With the withdrawal of the jobber and the keen desire of many competing manufacturers to get their money without delay and without risk of loss, the average man desiring to go into business would be unable to command enough capital to conduct a retail store.

17. *Elimination of the small dealer.*—The conditions that the retailer would have to face with the elimination of the jobber, show clearly that for the small dealer in jobbing lines the jobber is an absolute necessity. Without the jobber a very large proportion, possibly ninety per cent, of all retailers would have to drop out of business, and the field would be

left to those who are large and strong enough and backed by sufficient capital to do for themselves the things which the jobber now does for them.

To be sure, there may be a middle-ground between using the jobber's services and doing without them entirely. This possible middle-ground is to be considered in the chapter on Substitutes for the Middleman. Whatever substitute is offered for the jobber, however, it should be understood that the services performed by him involve a certain expense, which will be the same for the substitute as for the jobber. The substitute may be called by another name, but his function will be the jobbing function, and he will do for the retailer merely under another name, and perhaps in a modified way, some of the things now done by the jobber.

18. *When the jobber is necessary.*—The reader should remember that what has been said of the service rendered to the retailer by the jobber applies only to retail lines in which the jobbing function, because of the nature of the business, is essential to the small dealer. If a store can buy its entire stock of goods from a few manufacturers, the jobber's service is not important. This is the case with stores handling shoes, furniture, clothing, etc. The elimination of the jobber would not greatly handicap these stores, because in perhaps the majority of cases even the smallest of them are already purchasing direct from the manufacturer. It should also be remembered that we are not considering the advantages and dis-

advantages of the present system of multitudinous small stores scattered everywhere thruout the country, and of the present system of independent, strictly competitive, relatively small units of manufacturers. It is possible that with fewer and much larger retail stores and with combinations among manufacturers for the purpose of more economical marketing, there would be less necessity for the jobber's services. Under present conditions, however—and those are the only conditions worth considering—it cannot be denied that the jobber is often essential to the existence of the average retail store in many staple lines.

19. *Jobber's service to consumer.*—Finally, the jobber serves the consumer. He permits the existence of the neighborhood store, which is demanded by our modern buying methods; he is useful in creating place and time utility; he provides an economical method of marketing for many manufacturers and thereby keeps down prices; he encourages retail competition, increases retail efficiency, tends to weed out the unfit in merchandise and to encourage the sale of goods of quality. He touches the lives of the public in such a variety of ways that, if he were to disappear from the merchandising field, we should find ourselves seriously inconvenienced; we should be under the necessity of abandoning old buying habits and forming entirely new relations with the sources of supply of many of the things that we eat and wear and use.

One phase of the jobber's general service to manufacturers, retailers, and the public alike is brought out in the following article which appeared in *Printers' Ink:*

> By the operation of a "transfer station" at Waverly, N. J., the Pennsylvania Railroad in one year "saved" 11,342 freight cars. In other words, instead of sending a carload from some small town in New York State direct to some faraway destination and reshipping various small shipments at innumerable places en route, the car is rushed to Waverly, where it is unloaded and its contents consolidated with those for the same destinations from many other cars from different places, so that solid carloads can be sent through to each of the towns for which shipments were included in the original cars.
>
> The jobber is the "transfer station" of the business world. He receives large shipments from manufacturers, subdividing each shipment and consolidating the subdivisions so that a small quantity of each manufacturer's shipments are sent in one large aggregate to each retailer. This is just the same as making up carload lots of shipments from various towns to some one town as is done at the Waverly station. If we stop to think what an expensive and inconvenient thing it would be for each manufacturer to make many small shipments to retailers, and how much it would add to the cost to consumers, we will cease to look at the jobber as adding unnecessarily to the cost of distribution.

Many people who believe in the jobber's service, question whether his function in sorting and reshipping goods received by him from the manufacturer is an economical one. It is said that in some lines, merchandise on its journey from the manufacturer to the retailer thru a series of brokers and jobbers, has to be crated and uncrated, packed and unpacked, assorted, and freighted so many times that an appreciable amount is added thereby to the price to be paid by the consumer.

One suggestion to remedy this condition provides that the jobber shall act solely as a sales agent and a collector, and that he shall not handle any goods. It is further suggested that all his orders be taken on the "drop shipment" basis; that they all be sent to the factory for filling; that the retailers be encouraged to buy in the smallest possible amounts; and finally that the manufacturer ship these small amounts direct to the retailers by parcel post. Advocates of this view maintain that this would not only save the many expenses of reshipment, but that it would also permit dealers at all times to order goods in small quantities and so to keep complete assortments in all lines continually thruout the season. The scheme would, in some cases, doubtless accomplish this latter result if the plan worked, but it is doubtful whether it would effect any saving in expense, because the manufacturer might have to increase his price to cover the new item of storage. In many kinds of business the cost of a large number of small parcel-post shipments would be in excess of the freight charges on much larger quantities, even when one or more reshipments by freight were made after the goods left the factory and when the cost of successive handling was added. On the whole, there is reasonable doubt that such a plan would be practicable under present conditions.

REVIEW

What are the characteristics of a typical jobbing line?

What are the chief kinds of service that the jobber offers to the manufacturer?

Under what new and difficult conditions would the average retail store handling jobbing lines be forced to operate if all jobbers were to go out of business?

Would the elimination of the jobber tend to bring about monopoly in retailing? Why?

What is meant by the statement that the jobber is a clearing house for merchandise?

Do you, as a consumer, gain or lose by the existence of the jobber?

CHAPTER XII

THE JOBBER'S STATUS

1. *Jobber not to be abolished.*—There is a constantly increasing number of manufacturers who decline in whole or in part to take advantage of the jobber's services and an equal number of retailers who prefer to make their purchases direct from the manufacturer. Before investigating the reasons for the changing status of the jobber and his declining importance in many kinds of merchandising, let us fix firmly in mind the fact that the jobber will not be eliminated. He may disappear in some kinds of business, and in others his functions may be greatly changed. But there is a wide difference between the elimination of some jobbers and the elimination of *the jobber.* We are to ascertain, first, why it is that many retailers are willing to forego the jobber's service to them, and second, why it is that many manufacturers are leaving the jobber partly or wholly out of their schemes of marketing.

2. *Increased buying power of retailers.*—Why is the retailer seeking more and more to make his purchases direct from the manufacturer? The most important reason is probably the increased size of retail buying units. When a retailer can buy goods in

large quantities, it is natural for him to wish to buy from the manufacturer at the same price at which the manufacturer would sell the same quantities to the jobber. He wants the jobber's profit for himself. When it is understood that many retail units—large specialty stores, department stores, chain-store organizations and the great mail-order houses—make larger purchases than all except the most extensive jobbing establishments, it is not to be wondered at that they are willing to take over the jobber's function of storage, provided they can obtain the same discounts that are ordinarily given to the jobber.

The fact that some great retail buyers can and do get minimum prices by buying directly in quantities, influences the smaller retailers to form cooperative buying exchanges, by means of which purchases are pooled, and manufacturers are asked to give to the buying exchange the same prices that are obtained by the larger retail organizations buying individually. When a single retailer or a group of retailers demand direct buying connections on the strength of their buying power, they consciously abandon the old idea that there should be certain prices to jobbers because they are jobbers and other prices to retailers because they are retailers; they set up the relatively new idea that the only basis of price differentiation should be the quantity that can be purchased, no matter whether it is jobber, retailer or consumer who can buy that quantity.

3. *Pressure of competition.*—Many retailers, who

do not possess large buying power individually and who do not belong to buying associations possessing large buying power collectively, are seeking new sources of supply which will enable them to some extent to meet the price competition of their larger competitors. They bring pressure upon manufacturers to reduce the quantities that will carry the largest discounts and to provide facilities even for the smallest retailers to buy direct on the most favorable terms. They are trying, in other words, to force back upon the manufacturer the functions of storage, credit carrying, intensive selling, etc., which have heretofore been largely performed by the jobber, in the hope that prices will in some way be reduced. If successful, the utmost saving they can effect is the exceedingly small jobber's net profit, because the price of goods to the retailer must include the cost of storage, credit carrying, selling, etc., no matter whether these functions are performed by the jobber or by the manufacturer.

4. *Ease of buying direct.*—Retailers are encouraged in their attempt to purchase direct by the increased ease of dealing with the manufacturer. The number of manufacturers' salesmen who will call upon retailers is constantly increasing; facilities for the quick and cheap transportation of even small shipments direct from the factory to the store are much better than formerly; the possibility of ordering frequently and conveniently by mail from the manufacturer is being realized more than ever before.

5. *Some lines not sold by jobbers.*—Some manufactured lines have developed in such a way that they are no longer generally handled by jobbers. Ready-to-wear clothing, for instance, is not commonly considered a profitable jobbing line. When goods of this sort cease to be profitable to the jobbers, they either abandon them or become manufacturers on their own account, and the retailer is forced to buy from the manufacturer.

6. *Retailer knows sources of supply.*—The fact that consumers are increasingly acquiring the habit of buying goods by name encourages the habit among retailers of thinking of the manufacturer rather than of the jobber as the natural source of supply for the things in their stores. As long as customers generally asked simply for flour, the dealer did not pay much attention to brands and manufacturers; he bought usually on a price and quality basis from the jobber. But when his customers began to ask for Gold Medal flour, Pillsbury's Best or some other advertised brand, the manufacturer's instead of the jobber's name was the one that naturally occurred to the retailer when he thought about ordering. National advertising has made the manufacturer known to the retailer.

7. *Some jobbers sell to consumers.*—Some jobbers have antagonized the retailer by invading what the retailer claims as his field. The jobber often sells directly to large consumers, and many jobbing houses have openly established retail stores. This arouses

resentment among those retailers who believe that each factor in trade should stick closely to its own peculiar function. When a jobber owns several successful retail stores in a city, it is not to be expected that the competing individually owned stores will be eager to increase his prosperity and competitive strength by patronizing his wholesale establishment.

8. *Charge of price discrimination.*—Finally, the charge has been made by some retailers' associations that certain jobbers do not have fixed prices for fixed quantities, that they favor certain dealers and discriminate against others, and that when one retailer buys goods from a jobber at a certain price he cannot be sure that his next-door competitor is not going to buy the same goods from the same jobber at a lower price. This charge is not generally true, tho some jobbers not only admit it but even defend the practice on the ground that the shrewdest buyer should get the best bargains. In any case the practice is resented by many retailers, and it is helping in many lines to widen the breach between jobber and retailer.

9. *Why the manufacturer sells direct.*—"Selling direct" in trade parlance ordinarily means going over the jobber's head and selling direct to the retailer. The manufacturer's declaration of independence of the jobber is founded in two classes of reasons: first, those that might apply to the old-line jobber who has not varied his activities from the traditional model, and, second, those that apply only to the jobber who has departed from the old model and has undertaken

or abandoned certain activities in an attempt to strengthen his position. These changed activities have often in their turn reacted further to antagonize the manufacturer and to emphasize the changing function of the wholesale distributor. In this chapter we shall consider the first group of reasons; the second will be treated in the following chapter.

10. *Jobber's inability to push one line.*—One of the most noticeable recent developments in trade is the enormous increase in the number of manufactured lines which the jobber handles. A recent catalog of a wholesale grocer contained over 6,000 items divided among 724 different kinds of goods. Among them, for instance, were 102 brands of coffee, 30 different kinds of coffee substitutes, 84 makes of canned beans and 75 kinds of cigars. Obviously, the amount of real salesmanship that can be put behind any one manufacturer's goods by the jobber's representatives is exceedingly limited. It is utterly impossible for the jobber's salesmen to know the selling points of more than a very small part of all the things they are supposed to sell. This is unsatisfactory to the manufacturer who wants the aid of personal salesmanship in the pushing of his goods.

The advertising manufacturer feels that because he aids the jobber by creating demand, the jobber should reciprocate by telling his salesmen to get behind the manufacturer's goods. The jobber does not see it in that way. How can he push one manufacturer's goods without being unfair to other manufacturers?

If the manufacturers of both Ivory soap and Fairy soap, for instance, deal thru the jobber, how can the jobber urge his salesmen to put their efforts behind one brand without being unfair to the other? The physical necessities of the case compel the jobber to say to the retailer: "Here are many different brands of goods. They are all good, or I should not be handling them. Take your choice." This situation is satisfactory neither to those manufacturers who do not advertise nor to those who want real sales service to supplement their advertising.

11. *Desire to keep close to market.*—Advertising by the manufacturer has brought consequences which tend to upset the old manufacturer-jobber relation. The manufacturer who spends huge sums in advertising his goods desires to keep in closer touch with his market than is possible when he deals only thru the jobber. He wants to be sure that the advertising is being backed to the limit by personal salesmanship all the way down the line until the goods are delivered to the final consumer. This does not mean necessarily the elimination of the jobber but the manufacturer wants to exercise an increasing amount of control over all steps in his distribution. Furthermore, he is not satisfied with the passive order-taking attitude of many jobbers' salesmen.

12. *Necessity of checking up advertising.*—The advertising manufacturer wants to know definitely *where* his goods are consumed. Suppose a manufacturer of a food specialty deals only thru jobbers.

He advertises in national magazines, but it is his policy also to use local advertising—newspapers, street cars, billboards, etc.—in those towns where special advertising effort is needed. There are seventy-five wholesale grocers, say, in Chicago, and he sells to all of them. He has an idea that his sales to consumers in Chicago are falling off, but he wants to make sure of this before he spends money for local advertising.

How can he make sure? It will do him no good to compare his sales to Chicago jobbers for this year with those of last year, since Chicago jobbers ship his goods all over the western territory, and total sales all over the district covered by them may have increased while actual deliveries to Chicago retailers may have decreased. The jobbers can guess at the situation for him, but advertising appropriations should not be made on a guessing basis. He may send representatives to the retailers themselves and attempt to get exact figures—not guesses—from them; but if he can afford to do this as often as will be necessary, he can afford to eliminate the jobber, and have his representatives do all his selling. As a matter of fact, the manufacturer who sells only thru jobbers does not *know* where his goods are consumed. Unless the jobbers are willing to keep definite records of the shipments of all his goods to supply him with this information, he is handicapped in his advertising activities.

13. *Some jobbers antagonistic to advertising.*—Some jobbers resent national advertising by manu-

facturers. They say that the profits on advertised goods are too small; they complain that the manufacturer is making of the jobber a mere machine; they resent their lessening influence with retailers occasioned by the growing consumer demand for advertised goods. This attitude is not logical unless the profit on an advertised line is really too low, but it is not infrequent, and as a consequence, manufacturers often prefer to find their own markets rather than to spend the time and money necessary to enlist the jobber's support.

14. *Price cutting by jobbers.*—One of the most important results of advertising has been to aid in the development of the principle of price maintenance. Many manufacturers wish to name the price at which jobbers shall sell their goods to retailers. Jobbers in large numbers have refused to give this principle their support. Price cutting by jobbers is one of the oldest and most common of the practices of which manufacturers complain. When price cutting becomes general among jobbers, the manufacturer who wishes prices maintained is tempted to withdraw entirely from his jobbing relations. The failure of some jobbers to support price maintained goods has been perhaps the chief stimulus in developing manufacturer-direct-to-retailer selling systems.

15. *Price cutting by retailers.*—The application of the principle of price maintenance usually includes an attempt by the manufacturer to establish the price

at which retailers shall sell to consumers as well as the price at which jobbers shall sell to retailers. Many retailers, as well as jobbers, refuse to comply with the manufacturer's price restrictions. This has suggested to many manufacturers the advisability of establishing strict agencies—of putting goods in retail stores on consignment, keeping the title to them until they are sold, and thereby retaining the legal right to dictate the price to consumers. This practice at present is followed to a small extent only, but wherever it is practised it involves dealing direct with the retailers.

16. *Exclusive agencies and direct selling.*—It has been found that certain kinds of goods are best sold by the exclusive agency system; they are handled by one dealer only in a town. The large sales of this dealer make direct selling by the manufacturer often more economical than selling thru the jobber. The manufacturer wishes to keep in the closest possible touch with dealers to whom he has intrusted the exclusive sale of his goods, and this is not always possible if the jobber must act as an intermediary.

17. *Manufacturers sell complete lines.*—Another reason for the lessening importance of the jobber to some manufacturers is the development of the movement for the production of complete lines by manufacturers. For instance, in the shoe industry, many factories now make all kinds of footwear, so that a retailer can buy his entire stock, if he cares to do so, from one manufacturer. When this is the case, the

sales to each retailer can often be made large enough to justify the manufacturer's sending out his own salesmen. Coupled with this movement is the development of the "family of products." The National Biscuit Company or the Loose-Wiles Biscuit Company can supply a dealer's entire needs for the class of goods it manufactures.

18. *Retailers' refusal to buy thru jobbers.*—The demand of large retailers for direct buying connections and their refusal to purchase thru a jobber tempt the manufacturer to sell direct to them. When a manufacturer yields to any extent to this natural temptation the jobber sometimes in reprisal refuses to carry his goods and thereby forces him into a general system of direct selling.

19. *Nature of the commodities.*—Another important reason for direct selling lies in the nature of many of the commodities sold. If goods are liable to rapid deterioration in value, they must be marketed by a system that will insure their reaching the retailer by the most direct route. Rather than risk the danger of having their goods spoil in the jobbers' warehouses, some well-known manufacturers of pickles and preserves, for instance, prefer to operate their own local distributing stations where they can keep a close watch on the condition of their goods and from which the retailer can be urged to buy frequently and in small quantities. The National Biscuit Company follows this procedure. So also do the majority of the meat packers. In their case direct selling is

due largely to the fact that jobbers do not ordinarily possess the refrigerating facilities that are necessary to keep the product in marketable condition. That jobbers can and do give satisfactory service in connection with the marketing of many kinds of spoilable goods, however, is proved by the support given to jobbers by many manufacturers of goods of this class. The Kellogg Toasted Corn Flake Company, for instance, has been a notable and consistent distributor exclusively thru the jobbers, of a product that is subject to deterioration.

20. *Lowered cost of direct sales.*—Finally, the growing practice of going over the jobber's head to the retailer may be attributed partly to the increasing density of population. When retailers are widely scattered and the expenses of traveling salesmen are high, manufacturers are usually unwilling to undertake the cost of selling direct to the dealers. In such a situation the jobber is generally recognized as being the most economical distributing medium. But when many possible retail customers are grouped closely together, the expense of a local warehouse and of sending the manufacturer's salesmen direct to the retailers is comparatively small.

21. *Direct selling is natural tendency.*—The statement is sometimes made that the whole contention over the jobber is due to a selfish desire on the part of retailer, jobber or manufacturer to cut out a step in marketing and to keep for himself a profit that might go to someone else. That such is not always

the case is proved by the causes for the present situation which have been listed in this chapter. There is always the desire on the part of every distributor to get all the profit possible, and the changing status of the jobber is due in part to that desire; but certainly it is due just as largely to the many things that have happened of late years to alter marketing methods—things that have occurred because of a natural development of trade, and not because of a selfish desire on the part of any trade factor to upset old procedure solely for the sake of an immediate advantage to himself.

REVIEW

Why are many retailers willing to forego the jobber's service to them and eager to buy direct from manufacturers?

If you were a manufacturer of goods that could be sold thru jobbers, what conditions might induce you to leave out the jobber and to go direct to the retailer?

Are there any commodities that cannot be sold thru jobbers? If so, what are the characteristics of these commodities that make jobbing difficult or impossible?

Is it possible to eliminate the jobber entirely from the merchandising system? Would this elimination, if possible, be a good or a bad thing for the public? Why?

CHAPTER XIII

THE PRIVATE BRAND PROBLEM

1. *Old-line jobber.*—Some of the reasons for the growth of direct manufacturer-retailer relations apply to the old-fashioned jobber who has not altered his classic functions. These are the reasons that have been discussed in the preceding chapter. Another class of reasons arises from a change in jobbing functions, and of these the most important is the entry of the jobber into the manufacturing field.

The old-line jobber was a distributor pure and simple as far as manufactured goods were concerned. To be sure, he has always performed a semi-manufacturing function with respect to certain kinds of goods. The grocery jobber, for instance, has since the beginning of the canning industry taken largely upon himself the responsibility of establishing local canning factories, and of collecting and packing the fruits and vegetables that are handled by the canning establishments. Sometimes the jobber owns and operates outright the factories that supply him with his canned goods; sometimes he merely backs a local canner with his capital and with his agreement to take the output of the establishment. In either case the jobber usually controls the character of the product, and often provides in advance for its marketing. There are many independent canning factories, but the majority of them put up all or most of their product under the labels of the jobbers with whom they deal; only a few advertise their own brands to the public.

The canning industry seems to be essentially one of small units, because the cannery must be close to the source of supply; therefore, in spite of a few notable exceptions, it has not attracted generally the attention of large scale manufacturers, and the supremacy of the jobber in this field does not seem likely to be seriously disturbed. What is true with respect to canned goods is generally true also with respect to various goods imported in bulk and then sorted and packed for the trade by importing jobbers. The jobbers' brands have long dominated such goods, and they will probably continue to do so. Some importers are beginning to limit their attentions to one or a few lines of goods, to brand them uniformly, and to advertise the brands nationally. The function of these importers is essentially a jobbing one; it differs only in degree from the activities of the many general jobbers who import and pack under their own brands but who do not generally resort to advertising to market the goods.

2. *Jobbers as manufacturers' competitors.*—These old, well-established activities of the jobber do not raise what is known as the private brand problem. There is no private brand problem as long as the jobber puts his own label only on the kinds of goods that

are not generally branded and advertised by the manufacturers. The problem arises when the jobber comes into direct conflict with the advertising manufacturer by putting his own brand on the same kinds of goods that are branded by the manufacturer. The private brand problem has become serious because some jobbers are trying to carry water on both shoulders. The hardware jobber who handles many goods trademarked by the manufacturer is often pushing a similar line of competing goods under his own label; the drug jobber who is supposed to be in business primarily to distribute the goods of manufacturers is frequently putting out, in competition with the manufacturers' goods in his stock, a complete line of druggists' package goods under his own label; the dry-goods jobbers and others are in many cases trying to bolster up their position by similar practices.

The situation just described constitutes the private brand problem. It is probably both a cause and effect of the present changing status of the jobber. The jobber says: "The manufacturer is taking my most profitable trade away from me; he is selling direct to the largest retail buying units, which of right ought to buy from me. He is selling package goods and other specialties direct to all retailers, regardless of their purchasing power, and is then leaving me to supply the same retailers with the heavier bulk goods on which I make the smallest profit, or no profit at all. If I am to stay in business, I must make a living profit; and I can't make a living profit unless I handle specialties which I can sell under my own label, which the manufacturer can't take from me, and on which I can fix my own profit without dictation by the manufacturer."

On the other hand, the manufacturer says; "Of course I have to sell direct to the retailer. Here is John Smith and Company, the wholesale druggists, with a brand of face cream of their own. Their salesmen have orders to push it and to try to get the retailers to order it instead of the face cream that I manufacture and advertise widely. Why should I intrust my brand to them? It is certain, if I do, that they will do their best to side-track it and to substitute their brand." There we have the private brand problem in a nutshell.

3. *Retailer's private brands.*—The private brand problem is not confined to jobber-manufacturer relations. Retailers have private brands, as well as jobbers. Opposition to nationally advertised goods on the part of retailers frequently takes the form of the retailer's handling a line of goods bearing his own label. This is more common in large department stores and chain stores than in smaller specialty shops or country general stores. The use of private brands by retailers is a very real obstacle to the manufacturer of nationally advertised goods who wishes to obtain the widest possible distribution.

It is by no means a universal practice, however, since a comparatively small percentage of retailers follow it; and, moreover, it seems to be decreasing except in the case of chain stores and catalog houses.

On the other hand, among jobbers, the use of private brands to a greater or less extent is almost a universal custom, and there are no evidences that it is decreasing. Our consideration of the private brand problem will deal, therefore, chiefly with the private brands of jobbers. Much that is said applies equally to jobbers and retailers, altho the illustrations are all taken from the jobbing field.

4. *Different kinds of manufacturing jobbers.*—The jobber who sells his own private brands is sometimes known as a manufacturing jobber. He operates in several different ways. Some jobbers actually establish their own factories and really manufacture the goods on which their trade-mark appears. They are relatively few in number because of the amount of capital needed to establish and operate factories. Other so-called manufacturing jobbers go to independent manufacturers and have them put up goods under the jobber's own label, or they buy package goods of various sorts without labels and then attach their own after the goods reach their warehouses. This method is followed to some degree by almost every jobber in every line in the country. Still a third method is for a large jobbing house to take the exclusive agency for a manufactured line, and to act as the manufacturer's exclusive agent for the distribution of it thruout the entire United States or within a limited territory.

The jobber who follows any of these three practices does not, in the majority of cases, advertise the goods for which he assumes responsibility. When he advertises it is usually in trade papers and is not intended to influence the consumer. Some manufacturing jobbers, however, are using local mediums—newspapers, street cars, etc.,—to influence consumer demand; and a few of the largest jobbing houses are advertising in general mediums to reach a national consumer market. Among the well-known products advertised nationally by jobbers who either manufacture them themselves or who have undertaken the exclusive responsibility for their distribution, are Eskay's Food, Calox Tooth Powder, Pebeco Tooth Paste, and Steero Bouillon Cubes.

5. *Why the jobber likes private brands.*—We are to consider the problem of private brands from three points of view: first, from the point of view of the jobber who is responsible for them; second, from the point of view of the manufacturer who makes them; and third, from the point of view of the general public and of the manufacturer who opposes them.

6. *Small profit on advertised goods.*—When the jobber puts his own trade-mark on goods to sell in competition with goods trade-marked by manufacturers, he serves notice of his intention to abandon his historic function of being merely a middleman. This is the case, no matter whether he actually manufactures his own goods or whether he simply puts his own label on goods made by somebody else, because in the latter case he consciously accepts the responsibility of a manufacturer just as much as in the

former. Why does he change his methods? Why does he abandon his former exclusive function of a distributor? His first reason is usually his belief that he can make more profit on his own brand than on a manufacturer's brand. The charge is made that goods which are advertised by manufacturers often give the jobber such a small profit that he cannot afford to handle them. If this charge is true, it is an argument that cannot be answered, but the advertising manufacturer contends that large sales of his product give large gross profits.

7. *Quality.*—Some jobbers say that their private brand goods are justified because such goods are better than competing nationally advertised goods. One jobber has said that "fifty per cent of the advertised goods in my line could not be given away if they were not advertised. The non-advertised goods usually have more merit." Opponents of private brands retort. "The jobber's sole purpose in putting out private brands is to make more money—to get goods for the minimum price and to sell for the maximum; and consequently quality is likely to be a secondary consideration." The truth is found in neither of these extremes.

The man interested in building a permanent business must care for quality, whether he is a jobber or a manufacturer. Reputable jobbers, like reputable manufacturers, are unwilling to put their names on goods without merit.

8. *Jobber wants to control his market.*—The pri-

vate brand jobber says that he owns his own business. No salesman who leaves his employ to work for another jobber can take trade away from him. If a jobber's private brand has proved satisfactory to a retailer's customers and is in demand among them, the retailer is not likely to cut off his source of supply for those goods simply because of friendship for a salesman who has formerly sold them but who has now gone over to a rival jobbing house. Furthermore, the manufacturing jobber maintains that he owns his business in still another sense. He is the sole wholesale distributor of his brand; he can dictate prices and profits without interference by any manufacturer; and his market is not likely to be demoralized by price-cutting by other jobbers, which sometimes does demoralize the market for manufacturer's nationally advertised goods that are offered by jobbers as leaders.

9. *Private brands mean more customers.*—The jobber sometimes says that his private brand will bring him new retail connections. If he advertises it and it is demanded by consumers, his salesmen will have less difficulty in opening new accounts than they have when all they can offer the retailer is the same line of manufacturers' goods that is also offered by other jobbers.

10. *Why the manufacturer makes private brands.*—The manufacturer who is willing to keep himself in the background and to make goods for the jobber to sell under the jobber's trade-mark has various

reasons for this course. First, there is the manufacturer who ordinarily sells his goods under his own label, but who has produced more than his normal market can consume, and who finds himself with a warehouse full of goods that he cannot move. The temptation is great for him to remove his label from these surplus goods and to sell them to some jobber who wants to brand them with his own trade-mark. He says that this business is clear "velvet"; he gets trade that he could not get otherwise, and he does not believe he is injuring himself by the transaction in any way.

Then, there is the manufacturer who finds himself with some goods of second or third quality on hand, on which he does not wish to put his own label. If he can find some jobber who is willing to buy them and put his private brand on them, he believes he is making a clear gain. Some opponents of private brands charge that most of the jobbers' privately branded goods are obtained in this way. They have not proved this charge. There are countless goods bearing a jobber's trade-mark that are just as high in quality as any that are branded and advertised by a manufacturer.

Finally, there is the manufacturer who has no trade-mark of his own and who does nothing but make jobbers' or retailers' privately branded lines. He adopts this definite policy, sometimes, because it happens to have been a long established custom in his line of business and because jobbers and retailers in that line insist on having their own brands or none at all; sometimes, because he believes that by this method of doing business he saves much of the selling expense which the marketing of his own goods under his own trade-mark would entail.

Allied to this manufacturer is one who has a single quality of goods and who puts his own trade-mark on part of his product, but is willing to sell the rest unbranded to jobbers and retailers who insist on having their private brands. He believes in pushing his own brand, but he sees no harm in permitting exactly the same goods to be sold under any other brands if dealers want them. He may try to protect the price on his own brand, and yet permit the same goods under private brands to be sold at any price the dealers wish to put on them. He believes, in other words, in doing everything possible to protect the good-will he has built up for his *name,* but he sees no necessity for protecting the good-will that has been built up for the goods themselves, or else he believes that this good-will is not endangered by his method of doing business.

11. *Arguments opposed to private brands.*—In opposition to private brands we find a long line of influential factors in trade. First among them are the majority of nationally advertising manufacturers. Then there are most of the other factors concerned with advertising—advertising agents, newspapers and magazines, and other interests which might be expected to oppose any movement that is based largely on opposition to the influence of advertising. Third,

there is a small but influential group of jobbers. Finally, there is a great body of retailers who have often expressed their preference for goods advertised by the manufacturer over those that are branded by the jobber and are unknown to the consumer. Some of the arguments in opposition to private brands are the following:

12. *Unfairness to manufacturers.*—It is charged that the jobber who pushes his own brand is unfair to the manufacturers of competing brands that he carries. In a certain sense this charge is reasonable. Suppose that a hardware jobber has his own brand of saws, and that he also purports to aid in the distribution of the saws of a half dozen manufacturers who sell their product under their own trade-marks. If his salesmen do not push his private brand unduly, if they simply say to the retailer, "Here are seven good brands; take your choice," there cannot be much criticism of his activities. But this usually is not the purpose of the private brand jobber. His salesmen have orders to push his goods. They do not all attempt to substitute, but many of them do. This is where the unfairness comes in. The jobber believes he should be supported by the manufacturer as a legitimate middleman, and then he often turns around and competes, as a manufacturer, with the manufacturer whose support he solicits. It is difficult to see the validity of arguments in support of this practice. The jobber says he is forced to adopt

it in order to make a profit, but by taking this attitude he is undoubtedly helping to break down the manufacturer-jobber-retailer system of distribution upon the continuance of which his existence as a jobber depends.

Of course, if a jobber frankly pushes his private brands, and if this fact is known by manufacturers who urge him to place their own brands on his price list, the jobber cannot be charged with unfairness even if he complies with their requests. He may be helping to break down the jobbing system, but he is not unfair with the manufacturers; they put themselves in his power with their eyes open. The unfair nature of the jobber's private brand activities appears only when the jobber demands as a right that the manufacturer sell his goods thru the jobber alone, even resorting to questionable coercive measures at times to accomplish this purpose, and then, having obtained the manufacturer's cooperation, turns around and does his best to push his private brand at the expense of the manufacturer's goods. This practice is by no means unknown, and it certainly does not help to clear up the present confusion regarding the jobber's status.

13. *How unfairness can be avoided.*—It is entirely possible, however, for a private brand jobber to conduct his business in such a way as to avoid any implication of unfairness, and to free himself entirely from the anomalous position in which many private

branders find themselves. He has only to decline to handle goods of manufacturers which compete with his private brands.

This would be a straightforward attitude which could not be open to criticism, and it is the attitude that many jobbers are rightly taking. It is unnecessary for a jobber to handle one manufacturer's line exclusively in order to be fair to that manufacturer; if he handles several manufacturers' competing goods on an equal basis, supplying them without prejudice to retailers who want them, he is doing his duty as a general distributor. But if he tries to compete with his own sources of supply he is helping to drive manufacturers into that direct-selling system which means the continually decreasing importance of the jobbing business.

14. *Buyers demand advertised goods.*—The opponents of private brands point out that the jobber is in business because he serves the retailer, and thru him, the consumer. If the retailer wants advertised goods and the jobber will not supply them, the jobber is not fulfilling his function of service. Furthermore, it is suggested that the jobber who is forced to tell the retailer that he will not handle or cannot obtain advertised goods that are in great demand, loses prestige with the retailer who likes to concentrate his purchases and to look to one or two jobbers for all his supplies.

15. *Less profit on private brands.*—Advertising manufacturers say to the jobber as they say to the

retailer: Perhaps the profit on each sale is less on advertised than on privately branded and non-advertised lines, but if the national advertising is properly done, it will result in a demand that will mean easy sales, small selling expense, rapid turnover of capital and larger total profits than could be obtained from the sale of a line which has to be sold by the expensive method of unassisted personal salesmanship. Somebody must create the demand if the goods are to sell profitably. If the manufacturer does not do it, the jobber or the retailer has to do so, and the advertising manufacturer believes that his method is the cheapest ultimately to the consumer as well as to those who handle his goods.

16. *Advertising gives better quality for less money.*—Advocates of nationally advertised, trademarked goods say that such goods are usually of better quality than unadvertised, privately branded goods. This is true, even if the private brander wants to give full value, because good advertising increases sales without proportionate increase in selling cost, thereby decreasing the unit cost to sell; and the largely increased sales mean large scale production with proportionate reduction in the unit cost to manufacture. It is not true that good advertising increases prices. On the contrary, it is capable of lowering them, or, if the price is not lowered, the advertising manufacturer is in a position to give better quality at a given price than his private brand competitor.

Another argument for advertised goods is that the jobber cannot control the quality of his goods if he does not make them in his own factories. He buys the same line of branded goods, often, from several different factories, and this practice, it is said, must necessarily result in lack of uniformity. Or he is likely to change factories every season, and the quality of his goods, therefore, is made subject to the willingness and ability of a number of different manufacturers to live up to the specifications of the jobber.

In this connection it is well to say, once more, a word of caution against accepting the claims of exclusive merit for their goods made both by national advertisers and by private branders. The charge that the jobber who has goods put up for him by the manufacturer cannot control the quality of those goods is not valid. The better class of private brand jobbers certainly exercise the closest possible supervision over both the raw materials that go into their products and the processes of manufacture. Some privately branded goods are not what they might be in the matter of quality, but if the jobber wants quality he can get it and keep it just as well as the advertising manufacturer.

17. *Manufacturer of private brands hurts himself.*—The manufacturer who is willing to put his product under the brands of jobbers is following a practice, it is maintained, that will result ultimately to his disadvantage. If a manufacturer sells some of his goods under his own name and some of them under

the names of one or more jobbers or retailers, he is helping to arouse distrust of advertising among consumers who learn that the same goods are sold at one price under the manufacturer's label and at another price under the dealer's private brand.

On the other hand, if a manufacturer sells all his product to private brand dealers, he may be laying up trouble for himself. Instances in which the jobber refuses to renew the agreement, leaving the manufacturer with a factory, expensive equipment, a big payroll, but absolutely no developed market and no sales force, are not infrequent. They cause many manufacturers to consider seriously the advisability of trade-marking their own goods, of creating a steady market for them, and of conducting business in general in such a way that every bit of good-will developed by their goods will be good-will for them instead of for the dealer.

18. *Should all goods bear manufacturers' names?* —Some interests have at various times sought to lessen the influence of private brands, if not to eliminate them, by attempting to obtain legislative action requiring the *manufacturer's* name to appear on every manufactured article. It is maintained that this will definitely fix responsibility for the quality of all goods, and will tend to decrease the number of private brands because dealers will not care to put out their own brands if, at the same time, they must publish the fact that they are not the actual manufacturers.

It is difficult to see how a statutory requirement of this sort would bring the expected results or would aid the public in any material way. Most people understand that goods privately branded by retailers and jobbers are ordinarily not actually made by the dealers who are responsible for them. The private branders commonly do not practice any deception; it cannot injure them for the public to be definitely told that the goods are made for them by so-and-so. If anyone should object to publication of this fact, it would be easy for the jobber or retailer to print the manufacturer's name so inconspicuously that few customers would ascertain it.

Even if every member of the buying public did know definitely the name of the manufacturer of every manufactured product he bought, of what use would this information be to him? If anything goes wrong with the purchase, he looks to the distributor of it if that distributor has put his trade-mark and name on it. The consumer wants to know who is responsible to him for the things he buys, not necessarily who manufactures them. He is often indifferent to the manufacturer, when he buys from a retailer on whom he can depend. The buyer of Onyx hosiery, when Lord and Taylor owned the trade-mark, had no particular interest in the several factories that manufactured it. As long as Lord and Taylor put their brand on it and stood behind it, the consumer was satisfied.

19. *Two phases of the problem of private brands.*—From what has been said in this chapter it is evident that there are two phases of the private brand problem. The first phase is really not a problem at all. If any kind of distributor, jobber or retailer, large or small, with either a national or merely a local influence, sees fit to become an actual manufacturer in some lines or puts his label on goods manufactured for him, and frankly says to manufacturers of competing lines that he is not in a position to serve them, he cannot be criticized. It is his privilege to divide definitely his manufacturing and distributing functions if he cares to, and to engage in both fields provided he does so fairly.

Criticism of the private brander is justified only when he pretends to be willing to cooperate in the jobbing or retailing of a line of goods with which his brands come into competition. If he does this, he puts himself in an anomalous position that is bound to increase direct selling by the manufacturer and to limit still further the activities and importance of the independent jobber.

One jobber says: "I don't figure much on functions; they are largely theoretical anyway. I figure on getting the business and holding it." And that is exactly the attitude of the great majority of private brand jobbers who try to job and to manufacture competing lines. It is a natural attitude, but it must be considered as illogical and short-sighted. The jobbers who follow this practice are aiding in increasing the chaos in marketing. Perhaps the manufacturers forced them into it; perhaps they themselves are primarily responsible.

Who started the controversy is not the important question. The important point is that unless the jobber remains distinctly a jobber, in many lines the independent jobber will continue to be of lessening importance. Either non-competing manufacturers will organize for the purpose of conducting common jobbing establishments of their own, or there will be an increasing amount of direct sales to retailers by individual manufacturers. There will be a growing list of large retail buying units—department stores, chain stores and great mail-order houses—who find the manufacturer receptive to their demands for direct buying connections, and who increase in strength and power because of this relationship.

REVIEW

In manufacturer-jobber relations what is meant by the "private brand" problem? How did it arise?

Practically all jobbers put their private brands on one or more of the lines that they carry. Why?

Do you believe that the jobber is really helped or hurt by pushing his private brands at the expense of goods branded and advertised by the manufacturer? Why?

How does a manufacturer justify himself when he sells part or all of his product to a retailer or jobber to carry the latter's private brand? Does he hurt himself by the practice?

If you were a manufacturer, would you be willing to make goods to be branded only with the marks of your distributors?

How is the pushing of private brands by jobbers likely to lead to unfairness to manufacturers? Do you consider feasible the methods suggested in this chapter for the avoiding of this possible unfairness?

What is the consumer's interest in the private brand problem?

Would he be helped if all goods bore the manufacturer's name?

CHAPTER XIV

SUBSTITUTES FOR THE MIDDLEMAN

1. *Modern tendency.*—In the preceding chapters we have noted the present tendency in marketing, for manufacturers to get as close as possible to their ultimate market, and to pare down the system of distributing thru middlemen as far as is consistent with economical selling. This tendency is illustrated by the growing practice among manufacturers of going over the head of the jobber and selling direct to the retailer, and, in some instances, of selling direct to the consumer by mail, by salesmen calling on consumers, or by means of chain-store systems owned by the manufacturers. Some middlemen, moreover, are doing their part to disrupt the traditional methods of marketing; retailers are more and more asking manufacturers to omit the jobber from their selling schemes and to make sales direct to retail stores.

This tendency on the part of manufacturers and retailers is matched by the movement among consumers to find some substitute for all middlemen, with the aim of reducing selling expenses and profits and getting goods to consumers at a minimum price. We are to consider in this chapter some of the more important schemes used by consumers, retailers and manufacturers in the attempt to lessen the chain of distribution.

2. *Cooperative activities of consumers.*—Substitutes for the middleman which have their start in consumer initiative are chiefly of two kinds: First, there are cooperative stores, owned and operated by consumers cooperatively, which perform many of the functions of independently owned stores; and second, there are buying groups, which establish no stores but which attempt to get for their members the advantages of quantity prices by pooling their purchases. The first class is the more important because it is the historical method of consumer cooperation, and because it is the more common.

3. *Cooperative stores in the United States.*—Cooperative stores started on a large scale in this country with the Patrons of Husbandry movement in the seventies. This movement was exclusively an agricultural one; farmers only participated in it. There had been cooperative stores in the United States before that time, but they were few in number and not generally successful. The Grange stores (as the stores of the Patrons of Husbandry were called) spread rapidly, and seemed to have a firm hold on the country. They were not as a rule successful. Some of the reasons for their failure were that they sold on credit, they sold at cost prices, and they restricted membership in the cooperative groups to a single class.

A few of these stores have survived and prospered.

but only a few. The cooperative stores in the United States today, perhaps a thousand in number, are relatively new; few of them are more than ten years old. Many of them have not secured a solid footing, and few of them are old enough to demonstrate the possibilities of cooperative retailing. The cooperative store is so much a rarity in the United States that its possible effect on the manufacturer and on other distributors has received little study.

4. *Cooperative stores abroad.*—The cooperative store idea probably started in Rochdale, England, in 1844. Twenty weavers banded together to run their own grocery store. The beginnings were small, but they were successful. From this tiny start has developed the great cooperative movement in Great Britain; the stores of the various cooperative systems there have a membership of 3,000,000; in 1915 the total business of the cooperative societies was $480,000,000, and the net profits $70,000,000. One family in every four in England is said to be represented in the cooperatives. On the continent, too, the cooperative idea has a firm hold. Germany, Austria and Belgium have notably successful cooperative societies, and the movement has spread to other countries.

With a few exceptions the cooperative buying movement in America has aimed chiefly at cutting out the middleman. In Great Britain and on the European continent the more successful cooperatives have gone much farther; not content to supply a substitute for the middleman, they have invaded the manufacturer's field as well. Some of the societies own their own mills, their own factories, and a few control their own sources of raw materials. It is this far-reaching possibility in the cooperative idea which gives it its chief significance for the business man.

5. *Reasons for lack of cooperative success in United States.*—No one can tell whether the cooperative movement is to grow to large success in the United States or not. All we can do is to seek the reasons why it has not developed here so fast or so successfully as it has abroad, and ask whether these reasons will operate against future development in this country.

6. *Lack of class consciousness.*—In Europe cooperation is a class movement, generally an expression of the workingman's class consciousness—an attempt to link the wage-earners still more closely together so as to improve their condition and to give them greater strength in their continual battle with capital. In the United States the wage-earner of today is the capitalist of tomorrow; the class consciousness of Europe is lacking. We may be developing such a class consciousness; labor organizations may in time bring about a solidarity of interests that will remove the present fundamental difference between labor conditions here and abroad. However, the workingmen of this country have not as yet found it necessary to cooperate except in the matter of bargaining with employers.

7. *Higher wages here.*—At least until the begin-

ning of the European war, wages abroad were so low that many workingmen would have been shut off from a large number of necessities if they had been unable to buy them thru cooperative methods for less money than was charged by regular dealers. In the United States wages have heretofore been sufficiently high to enable many workingmen to enjoy even some of the luxuries. The pinch of poverty has not necessitated cooperation here as it has in many countries across the water.

8. *Need of loyalty.*—The success of a cooperative store depends primarily upon the loyalty of its supporters. Unless the store can be assured of the constant trade of a definite group of people, its success is dubious. In Europe the universal class consciousness, the driving necessity of cooperation, produces this loyalty. In this country there is no equal incentive. We have been individualistic in politics and economics. The growing proportion of Europeans among our workers and the rising prices without proportionate rise in wages, are tending to destroy this intense individualism. The time has not yet arrived, however, when there can be the same intra-class cooperation in the United States as is found abroad. One curious expression of the loyalty to the cooperative idea found abroad is the fact that the Glasgow cooperative society is said never to have paid its chief officer more than thirty-seven dollars a week. Few executives in this country, capable of conducting a

many million dollar business, would do so for such a salary.

9. *Isolation of farmers.*—In Europe farms are small, and the farmers live close together or even in villages; this encourages community action in buying as well as in other ways. In the United States farms are larger, and the country dwellers come into contact with one another infrequently; this encourages individual rather than community action. Furthermore there is great instability in farm life; farms are no longer handed down from one generation to another; they are worked largely by renters who have no keen interest in building up cooperative societies, the greatest advantages of which must usually come in the future after a considerable period of planning and building.

10. *Chief opportunity for saving.*—Finally, cooperation has not been a marked success in this country because it has extended usually only to retail stores, and single stores at that. As we have already shown, there are three elements in a retail price—cost of the goods, expense of doing business and net profit. A single cooperative store can buy goods no more cheaply than any other store. Nor is it likely to do business any more cheaply, even tho it may omit credit accounts, delivery, etc. So far in the United States we have not proved conclusively that community activity is as efficient as individual activity spurred on by the incentive of profits. As a matter of fact, the

cost of doing business in many cooperative stores is higher than the expense in independent stores. The only possible saving which the cooperative can effect is, therefore, the net profit of the retailer. In many retail lines this is exceedingly small—so small, in fact, that the possibly increased expense in the cooperative store entirely swallows it. As the sole purpose of the cooperative is to lower prices, it is not strange that the movement has not been generally successful in the United States, as long as individual stores were working merely to save doubtful items of expense, or to eliminate the often visionary retail profit.

In Europe, as has already been pointed out, the cooperative idea goes far beyond the retail store. The cooperative societies have developed along lines resulting in far more important savings than are represented by the usual profits of the single retailer. The first step was to obtain the advantages of quantity buying. Chains of stores were established, and the wholesaler's profit was eliminated. Then came the attack on the profit of the manufacturer, with the wide-reaching results that we have already described. Probably the chief success of the cooperatives abroad is attributable to their control of the manufacturer's and wholesaler's profits, rather than to the questionable saving in the cooperative conduct of a single store.

11. *Cooperative buying by consumers.*—The other substitute for the distributing middleman which has its start in consumer initiative is the buying group,

which is formed primarily for the purpose of pooling purchases, and which does not perform the function of storage. A group of this sort is usually called a buying exchange, altho other names are also used.

A successful example of this type is the Farmers' Exchange of Schellburg, Pennsylvania. The Exchange handles only certain staple lines. Regular quotations on farm supplies and equipment are mailed to the members. Anyone who wishes to buy makes out his order and deposits it with cash in full for the amount of the order in a designated bank before a certain date. The bank certifies that the money is there, awaiting the shipper's draft. The executive officer of the Exchange then collects the orders and certificates from the various town groups belonging to the Exchange and forwards them to the supply houses that have been willing to quote prices. The Exchange assumes no financial responsibility for the order. It is filled, and shipment made, with an order form bill of lading attached to a draft. Payment is then effected thru the bank in which the money for the goods has already been deposited. The saving to the individual lies in the lower prices quoted by supply houses in consideration of getting the business of the Exchange—usually a wholesale price—and thru the freight savings which are effected thru consolidating the shipments from one supply house to several buyers in one town group. There is practically no expense for administration.

The significant thing about buying exchanges of this type is that they are growing very rapidly; and that they have a certain amount of government sanction thru the interest which the Federal Department of Agriculture has taken in them and thru the semi-official activity of some state officials in their behalf.

12. *Effect on retailer and jobber.*—In such consumer attempts to find a substitute for the middleman the retailer feels a price competition which he often cannot meet. It deprives him of trade in profitable staple lines, and leaves him to supply only the more infrequent needs of the members of the cooperative societies. It takes away cash trade because the cooperative groups almost universally must do business on a strict cash basis, and leaves the retailer the less desirable credit business. If cooperative stores and cooperative buying exchanges increase, the independent retailers must decrease in numbers and will face a serious situation. On the other hand, it must be remembered that the buying exchanges do not create time utility, and the cooperative stores are lacking in many of the kinds of service which considerable numbers of consumers demand and for which they are willing to pay. While there need be no fear that cooperation will ever eliminate the independent middleman from the distributing system, it may lessen his opportunities and greatly increase the problems of competition.

The effect on the jobber is similar to that on the retailer. The chains of cooperative stores and the buying exchanges usually wish to purchase at first hand. If the system grows in the United States as it has done abroad, the cooperatives will find little use for the jobber and his activities. The problem is no problem now; few jobbers have given it a thought, but it may become a very real problem in the future.

13. *Effect on the manufacturer.*—Some manufacturers see in the cooperative movement only an opportunity to incur consumer good-will by dealing direct, at wholesale prices, with the cooperative stores and buying exchanges. The movement does not increase consumption, but it increases the opportunity for direct manufacturer-consumer contact. Few manufacturers see any menace in it, simply because it has not developed far enough in this country to bring to light any of the difficulties which the future may hold.

It may not be without effect on the advertising manufacturer. The idea of many cooperatives is expressed by the statement, a few years ago, of the head of a cooperative league in New York:

> There is nothing in the cooperative movement to interest the advertiser or business man except as future competition to them. We, as well as other cooperators, consider the greater part of advertising, as done at present, a pure economic waste, and hope to eliminate it, or at least to reduce it to some system of simple announcements. The object of cooperation is to organize the consumers, eliminate competition and the cost of selling and buying. Each industry manufactures for a known market answering a demand that is known with scientific exactness. Therefore, when fully developed, cooperation eliminates advertising.

This is not the place to defend advertising or advertised goods. Just now we are interested only in the promised effect of cooperation on the manufacturer. It is pointed out in this statement. Cooperative stores as they develop into chains, and as they begin to control factories, almost universally develop private brands of their own. Advertising is not dead in Great Britain, even tho the cooperatives are strong there, and it is not to be expected that it will be killed here even if cooperation makes greater strides. Yet cooperation might mean new and strong competition for the manufacturer who seeks legitimate contact with the public thru advertising.

14. *How to meet the cooperative movement.*—The non-advertising manufacturer, too, will be adversely affected. To the extent that the cooperatives themselves invade the manufacturing field, and they must do so if they are to realize to the full the advantages of cooperation, the independent manufacturer will find his market narrowing. There is nothing that can be done to stop the cooperative movement, even if it were desirable to try to do so. If it is a good thing for consumers, it is bound to come in some form and to some degree; laws and resolutions can't stop it. The only thing for retailers, jobbers and manufacturers to do is to see that their activities are conducted on the narrowest margin of expense, that they get goods as cheaply as possible to the final consumer, and that their service to consumers becomes such that it will continue to be demanded by many

consumers regardless of the spread of the cooperative idea.

15. *Direct selling by manufacturers.*—We have been considering attempts of consumers to find substitutes for the middleman. The manufacturer, also, is in some cases doing his part to change the normal distributing system. Chains of stores owned and operated by manufacturers are common in some lines. The possibility of extending such chains is limited. Ordinarily a single manufacturer can put one of his chain stores in only a comparatively large community, and it is only in a few lines that the manufacturer's chain store is a possibility.

A suggested modification of the chain of stores owned by a single manufacturer is a chain owned by a group of non-competing manufacturers. For instance, a hat maker, a manufacturer of men's clothing and a shoe manufacturer might combine to sell their products in a chain of retail establishments. The difficulties of cooperative effort of this character have kept manufacturers from trying it. Even if it were a workable plan, it is doubtful whether the cooperative chains would have greater opportunity for wide development than the chain of a single manufacturer.

Manufacturers are loath, as a rule, to establish chains of stores. Manufacturing and retailing are two distinct activities; it usually takes a distinct type of training and ability to be successful in each. The manufacturer is apt to think that he can use his capital to greater advantage in extending his manufacturing facilities than in branching out into retailing. There are few manufacturers' chains, and it is seldom that a new one is established.

Direct mail sales by manufacturers to consumers are common. It is not conceivable, however, that they can ever become an important competitive factor in merchandising; the inconvenience to the consumer in ordering by mail from a large number of different manufacturers will forbid the general use of this method of selling. There must usually be some clearing-house arrangement to give time and place utility to the goods of the distant manufacturer.

16. *Substitutes for the jobber.*—Opponents of the present marketing system say that if there were fewer retail stores, if in each community there were only one or two large general stores, or, in the larger towns, only a few large specialty stores in each line, the jobber would be unnecessary. They contend that the jobber is needed chiefly by the relatively small stores which cannot purchase in large quantities and which cannot hire buyers to see the many salesmen of many manufacturers. There can be no doubt that semi-monopoly in retailing would eliminate the jobber, because, with the elimination of the majority of the stores, the few that were left would be able to grow to such size that they could buy everything direct.

But there is no prospect that this elimination of the small retailers will be brought about. The

American people are certainly not ready to do it by law, even if they could. We demand the convenience of the "corner store"; furthermore, we are not ready to abandon the competitive system of industry which permits any man to start in business who sees an opportunity to render a service for which people will be willing to pay. As long as this opportunity remains, there will be some small stores that must have the jobber, and these small stores, by the thousand, have proved that they do render a real service, by continuing to do business and to prosper in the face of strong competition from those doing business on a much larger scale.

Finally, it should be remembered that if this semimonopoly in retailing should be accomplished, it might mean the disappearance of the country general store; all country dwellers might have to purchase by mail, or go in person to the county seat or to some other central point in order to find an establishment with a large enough patronage and therefore capable of buying in sufficient quantities to purchase all its stock direct from manufacturers. Even if it were possible, it is not pleasant to think of the effect on country living that the disappearance of country stores would have. It would mean the death of thousands of country towns, and, as a direct result, the increasing isolation of farm dwellers.

17. *Retail buying exchanges.*—Perhaps the most serious and successful substitute for the jobber is found in the various forms of retail cooperative

groups which try to do for themselves cooperatively what the jobber has heretofore done for the individual dealer. They are of various types. First is the comparatively loose organization that conducts no warehouse and does not attempt to supply its members with all of their goods. Some state retail associations, notably the Nebraska Federation of Retailers, have been successful in buying cooperatively for their members. The plan is to purchase certain staples in carload lots, to be sold for cash to the members at cost price, plus a small charge for administration.

A more ambitious form of cooperative buying is typified by the Retailers' Commercial Union, consisting of some hundreds of retailers in Wisconsin, Illinois, Iowa and Minnesota. No member is accepted who is not rated high and who cannot pay cash for all purchases. Conventions are held semi-annually in Chicago, where selected manufacturers are given a chance to display their lines. Orders are placed by the members at a fixed discount under list—a discount which is granted by the manufacturers because of the assured business of a large number of retailers and because of the assurance of cash payments. Between conventions, members are permitted to reorder by mail; they get the same discounts on reorders that are granted to buyers at the conventions. There are many variations of this procedure in other similar associations, and a large number of the organizations are highly valued by their members and seem to render a real service not otherwise rendered.

18. *Cooperative wholesale establishments.*—A second attempted substitute for the jobber is the wholesale house, owned and patronized by an organized group of retailers, which conducts a warehouse and, to outward appearances, is not different from the independent jobber. The Retailers' Commercial Union, mentioned in the preceding paragraph, has lately established a cooperative wholesale warehouse. Another successful example of this kind of cooperative jobbing house is the Girard Grocery Company of Philadelphia, with 470 retail members. It has no private brands, the members pay cash for their supplies, and they do their own hauling from the warehouse. There are many other successful organizations of a similar character.

19. *Cooperative retail chains.*—We have already learned something of the United Drug Company (Rexall stores) and the American Druggist Syndicate with thousands of retail members scattered over the country. The former is an exclusive agency proposition; the latter started on the same basis, but now does a general jobbing business. Other similar organizations are projected in the jewelry trade as well as in other lines.

20. *Strength of retail cooperation.*—These various substitutes for the jobber, conducted cooperatively by retailers, are in many cases successful and result in putting some goods into the retailers' stores

at a lower cost than would be involved in purchasing thru independent jobbers. Where the organizations are efficiently managed, there are many undoubted savings which accrue to the benefit of the members.

21. *Weakness of retail cooperation.*—On the other hand, many attempted retail buying groups have failed. Careful organization and a sense of group solidarity are necessary for success. The loyalty of the members sometimes cannot stand the strain of momentary price inducements elsewhere, and without the loyalty of the members the groups cannot succeed. Retail buying exchanges of all kinds, almost without exception, operate on a strictly cash basis. They must do so, because the introduction of credit relations would bring added cost and possible loss. When a member has not the cash available, he must trade elsewhere. The smaller buying exchanges are often not in a position to make the bold merchandising strokes which the large jobbing house frequently makes; a hired manager for a large group of small retailers will not take the chances in buying for the future that the trained jobber's buyer is taking daily. Despite decreased operating expenses, the buying exchange is frequently unable to meet the prices of regularly established jobbers.

22. *Middleman's function must be performed.*—The various forms of cooperative substitutes for the middleman, both retail and wholesale, must really perform the middleman's functions if they are to hav

any large development. Some of these functions are storing, credit granting, and constructive selling. In addition, many middlemen provide free delivery and other desirable services. These services cost money; they must be paid for whether they are performed by an independent middleman or by some substitute for the middleman. The substitute claims to omit the middleman's profit from its charges, but in some cases at least it has been found that the profit is swallowed up in increased costs of operations on the part of the inefficiently managed cooperative middleman.

Many cooperative groups are able to reduce operating expenses by omitting some of the usual items of middleman service; for instance, credit granting is almost universally abandoned by cooperative groups, and many of them make no deliveries. These omissions result in undoubted savings at times. It should be remembered that to the extent that these savings are effected by reason of abandoned service, the cooperative organization restricts its market. Some people cannot always buy for cash; the credit-granting middleman is an absolute essential for them. Some people demand and are willing to pay for selling service, delivery and other things that are usually lacking in a cooperative establishment.

23. *Will the middleman be eliminated?*—Despite the growth of consumer cooperation, the independent retailer will continue to do business as long as some consumers will not or cannot buy under the restric-

tions of the cooperative method, and as long as consumers continue to demand forms of retail service which the cooperative store, organized solely to reduce prices, cannot afford to give.

The independent jobber will also remain. As long as the competitive field is open, there will always be many relatively small dealers who will not belong to buying associations and who cannot buy sufficient quantities of each kind of goods to be able to command direct buying relations. For them, the jobber is an absolute necessity, and it is therefore safe to predict that, unless we exchange the competitive for the monopolistic system of industry, the jobber will continue to be a factor in the marketing of many kinds of manufactured products.

REVIEW

What is the comparative status of cooperative stores in the United States and abroad? What makes the difference?

Do you believe that the causes that have retarded cooperation in this country are to be less influential in the future than in the past?

What are the purposes and characteristic methods of a typical buying group of consumers?

How are retailers, jobbers, and manufacturers affected by consumer cooperation?

Assume you are a retailer in a small town. Twenty farmers have banded together for group purchases. They ask you to order for them a car of flour; you are to give the group the carload wholesale price, plus freight, plus a nominal one per cent profit for yourself. The farmers will unload the car and cart the flour at their own expense. Would you accept the proposal?

What do you think of the feasibility of a chain of cooperative retail stores run by a group of non-competing manufacturers?

Describe several different types of retail buying exchanges.

CHAPTER XV

STUDY OF THE PRODUCT

1. *Importance of trade relations.*—The plan for a marketing campaign must include the study of a great many things. In the first rank in importance, altho not necessarily first in point of time, is the study of trade relations. This study enables the man with something to market to know the various ways of reaching the people who might buy his goods, and it suggests a solution to at least some of the many vital problems involved in the manipulation of the complicated links in the chain of distribution for the great majority of manufactured products. Because trade relations constitute the largest single problem of the average distributor, and also because failure or success in solving this problem is perhaps the chief contribution to the failure or success of a business as a whole, the subject of trade relations has been placed first in this book. It has been considered at length in Chapters III to XIV inclusive.

The present chapter and the three chapters which follow it, present a summary of the more important points usually considered by a manufacturer in planning his campaign. The remaining chapters will deal with a few of the special problems in marketing that have to be solved by most distributors. The significance of the many new types of retailers, their value as distributors, the status and function of the jobber, the possible substitutes for the middleman, and the relation of all trade factors to the manufacturer and to his selling and advertising activities, form a necessary groundwork for any adequate knowledge of marketing methods.

2. *Necessity of a marketing plan.*—Neither advertising nor salesmen can bring success to a business unless its plan of campaign is right. There must be definite advance knowledge of the methods to be used in marketing an article or the stock of a store, before the selling starts. Opposed to a planned campaign are the hit-or-miss unplanned trials of this scheme or that, the vacillating, wavering attitude of the man who does not know exactly what he wants to do or how he wants to do it, and who opens his mind and his purse to every will-o'-the-wisp scheme that is suggested to him by those who want his money.

For instance, there is the small retail merchant who does not plan his advertising for a year in advance. He has no definite appropriation, and pays for space not because it fits in with a marketing scheme, but because of the personality and fluency of the solicitor. There is the manufacturer with no settled policy about trade channels. He may have been selling only to jobbers, but a big order from a retailer tempts him; he accepts it without thinking of the consequences, and trouble follows. There is the advertiser who looks on advertising as a gamble. He puts his little bet on this medium or that, on this size space or on that preferred position, and sits back stoically to take his earnings or his losses with cynical expectation of the latter and only a gambler's hope of the former. This does not necessarily imply that the "cut and try" method in marketing is wrong. The one best way is often found only by a process of elimination of the wrong ways. But if the whole so-called campaign consists in trying this and testing that, there is no campaign worthy the name; the real campaign should start where the cutting and trying end.

3. *Basis of a good plan.*—It is important to have a definite plan of campaign, but a definite plan of campaign is worse than useless if the plan happens to be the wrong one. A *good* campaign plan must be founded on careful study, investigation and analysis. Without careful study, investigation and analysis, the plan is built on mere whim and prejudice, and whim and prejudice are unsafe guides for the investment of money.

4. *Analysis in business.*—Analysis in business is nothing new. It has always been applied in the productive end of industry. Boards of directors seldom decide arbitrarily that such and such a change shall be made in their manufactured product, and forthwith order it done. They recognize that mechanical problems must be studied and analyzed, and they usually reserve decisions until competent engineers have done their part of the work. Yet the same

directors who study their manufacturing problems wisely will often complacently order large expenditures in new sales activities without study, investigation, or analysis, merely on the strength of personal opinion or reasoning by false analogy.

Such procedure may be excused by pleading the lack of standards in marketing, but the plea is not good. For every business there are certain standards; investigation will bring them to light, and if no attempt is made to ferret them out, the directors are merely gambling with the stockholders' money. It is an offense against common sense to put money into undigested marketing schemes. The making of a good marketing plan is chiefly a matter of common sense, and common sense is only another name for logical thinking.

5. *Magnitude of manufacturer's problem.*—We are to consider the campaign primarily from the manufacturer's standpoint. His marketing problems are far more numerous and far more difficult than those of either the retailer or the jobber. The latter two classes of distributors have their general markets selected for them. The retailer must sell to others than dealers, and the jobber must sell to dealers; their only problem is how best to reach the natural market. The manufacturer must first select his market and then find out how to reach it. Many of the suggestions in our presentation of points to be covered in a marketing campaign will not apply to the retailer or the jobber. Others, however, will apply to them,

and all classes of merchants will find solutions to many of their own problems by a study of the manufacturer's campaign. While, as before noted, the selling campaign is a unit, our concern is with that field of marketing analysis that precedes advertising and personal salesmanship and is common to both.

6. *When the analysis should be made.*—Three occasions should prompt a manufacturer to make a careful analysis of his marketing problem: (1) before he starts in business or immediately thereafter; (2) when he wishes to add advertising to his other selling activities and finds it necessary to investigate and chart facts hitherto neglected; and (3) when he awakens to the necessity of greater competitive efficiency, and decides to abandon hit-or-miss procedure and substitute for it carefully considered policies built on known facts. We shall consider the manufacturer who is about to begin business, as such a time is a logical one for a complete analysis. The matters considered, however, will ordinarily be just as useful to the manufacturer already in the market who wants to find out how to get more sales and more profits. There are three groups of facts to be considered—the product, the market and the way to reach the market.

7. *Making sure of the product.*—At the outset there should be technical tests to prove that the product is right, that it will do the things the manufacturer wants it to do. Before Crisco was put on the market, the manufacturers experimented for years to

get it exactly right. Literally, hundreds of times the company thought that the product was ready for the market, only to find that after exhaustive tests had been made some changes were still necessary. It is common knowledge that the inventions of Mr. Edison have all been subjected to the most painstaking experiments to prove their practicability before they were put on the market. On the other hand, there are many instances of business disasters that have resulted from failure to know in advance whether the product would do what was claimed for it. The manufacturer's enthusiasm often outruns his business sense.

Technical tests of the product are not alone sufficient. There should be practical tests to prove that the product will operate in the hands of the average user as well as it operates in the laboratory. Of such a character are the tests of Colgate's perfumery to which much publicity has been given. Numbers of women have expressed their preference for these perfumes after examining unlabeled samples of foreign and domestic makes.

If the product is already on the market, it is well to find out definitely whether it can be improved or rendered more attractive in use or appearance and therefore more salable. The manufacturer of a small but useful attachment for talking machines had been trying vainly to find a market for it. The price was three dollars. People did not buy it because, despite its usefulness, the article did not show its value.

After the reason for the slow sales was ascertained, the attachment was given a wash of gold plate and part of its structure was cut away so as to show the interior mechanism. It sold readily thereafter at an increase over the original price.

8. *Problem of the raw material.*—After the fitness of the product has been looked into, it is advisable to chart the conditions under which it is manufactured. This consideration begins with the raw material from which the product is made. If you are the manufacturer, do you control the supply of raw material, or must you depend on others for it? The steel corporation that controls iron mines can adopt certain policies with respect to selling prices, competitive activities, credit granting, etc., that are not possible to the manufacturer who must look to others for his raw material. Is the supply steady, or does it fluctuate? If you are making an article from a certain kind of hard wood, you want to know very definitely whether the supply is so sure that you can undertake safely an extensive marketing campaign. Are the prices for the raw material steady and dependable? This, of course, vitally affects the price that must be charged for the finished product. Foodstuffs are subject to considerable price variation, and yet package foods are generally sold at a steady price regardless of the shifting raw material market. When this is the case, the package price must usually be sufficiently high to give a profit even when raw materials cost more than they normally do.

9. *Capacity of the plant.*—The capacity of the plant is an important consideration. With a new business, all the questions of demand, competition and marketing methods will be studied before the size of the plant is determined. But with an established business, before a campaign to boost sales is started, it is necessary to determine whether the plant can take care of the increased business that is expected, or whether additional plant capacity can be provided if necessary.

An advertising solicitor induced a manufacturer to take large space in a publication for a year. The solicitor had made no investigation of the business, and the manufacturer went into the campaign in a half-hearted way and gave the advertising little attention. Contrary to his expectations, it produced an immense amount of business—more than his factory could possibly accommodate; as a result, many orders had to be refused and a large part of the purchased publicity was wasted.

10. *Analysis of labor supply.*—The quantity and kind of labor is usually an important item in an analysis of the product. Is it skilled or unskilled; is a large supply available, or is there likely to be a shortage at any time? The question of union labor versus the open shop may also have a bearing on marketing. It is possible at times to base a selling appeal on one or the other of these policies. Labor conditions in the factory may also vitally affect the stability of the output. Of course, the possibility of

strikes should not cause entire cessation of selling activities, but if conditions were notably unsettled in a factory an extensive marketing campaign might be unwise unless, indeed, the advertising had for its purpose the creating of a public sentiment both within and without the factory that would lessen the probability of a shut-down.

11. *Cost of manufacture.*—In connection with the conditions of manufacturing another point to be considered is the cost of making the product in varying quantities. Goods are usually sold at the price they can be made to command, instead of on a mathematical basis of cost-to-make plus cost-to-sell plus amount of profit desired. The selling price must, however, cover all these three items, the variable factor being the amount of profit obtained. Before the amount to be spent in pushing sales can be determined, and before a price can be fixed, the cost to manufacture must be definitely known. A gas engine manufacturer was having trouble in marketing his product. One day he received a visit from a representative of a great mail-order house who offered him a certain price for his entire output. The manufacturer, glad of this easy solution of his selling problem altho the price offered was low, did a bit of hasty figuring, and accepted the proposal. Shortly afterward he was induced to instal a real cost system. For the first time he discovered his actual cost to manufacture, and he found that the price at which

he had contracted to sell the entire output was just enough to cover the manufacturing cost without leaving a cent of profit.

12. *Question of capital.*—Allied to the consideration of conditions of manufacturing are various questions about the capital of the business. Is capital easy or hard to obtain? Can a large campaign be planned, or must the marketing expenditures be low? How much capital is now available or in sight? What rate of return must be earned? Is it necessary to conduct a concentrated campaign that will bring immediate results, or will the stockholders be willing to wait for results until the full force of a large expenditure for good-will can be realized? Are there any prejudices among the influential stockholders that must be catered to? This last question may seem out of place in a scientific investigation of the possibilities of a business. Unfortunately, it is only too frequently asked, and answered in the affirmative. Many stories are told of advertising accounts that are inefficiently handled, and which yet remain in inefficient hands because of influences that count for more than the business judgment of the advertising or sales manager.

13. *Choosing the right name.*—If the product is one that is to be trade-marked or named, the selection of the right name is a matter of primary importance. After a name is tentatively chosen, it should be criticized from every possible point of view. Not unless it can pass every test should it be finally selected.

Can it be protected by registry at the patent office? The requirements of government registry are many and varied. No name should be selected, of course, that has ever been registered by anyone else or that has been in use even tho unregistered. The man who is choosing a name for his product can well afford to give this matter his most careful attention, to search widely among the names in his field of business, to read the best books on the subject, and finally to get the advice of a lawyer or business expert who has specialized on trade names and trade-marks.

Protection, however, is only a part of the problem. The name must be one that will help sell the goods. It should be so distinctive that no one could confuse it with any other name, even tho the similarity might not be obvious enough to prohibit registration. A naphtha soap that has long been on the market bears the name of the maker—Fels Naphtha soap. When the Procter & Gamble Company decided also to put out a naphtha soap, they too gave it their own name —P. & G. Naphtha. The earlier name was so distinctive that it had become firmly fixed in the public mind, and the newer name simply fitted into the old brain grooves in such a way that many people who wanted the new product asked for "P. & G. Fels Naphtha soap." Certainly it is better to select an invented or unusual word or words, such as Listerine, Tarvia, Wooltex, or Uneeda, than to try to join the crowd of Standard's, Quality's, Acme's, and other similar too-common brand names.

It is common sense to select a name that is easy for everyone to pronounce. It would be interesting to know just how much business has been lost to Sanatogen and Bon Ami soap and Clicquot Club ginger ale because of the hesitancy of many people to ask for a thing by name when they are not sure of its pronunciation. A name, too, should be as short as possible. Velveola Souveraine may add distinction to a face powder, but the name is not so good as the shorter Primrose. Finally, does the name in some way suggest the use or quality of the product? Descriptive names cannot be registered, but it is sometimes possible to avoid actual description and yet to give the name valuable suggestive qualities. For instance, a better name than Ivory for a white soap could scarcely be found.

14. *Trade-marks.*—Trade names and trade-marks are closely connected. The trade name is usually the basis of the trade-mark, and the two are considered and registered together. The trade-mark should be constructed in order to obtain the maximum advertising value. After the design is laid out, a search must be made among other trade-marks to be sure that the one selected is original. Protective records should be provided from the very beginning, because after many years a competitor may lay claim to the mark. Unquestionable proof must then be advanced that it has actually been in use for a number of years in order to protect it. Finally the trade-mark must be coordinated with all the other forms of publicity.

15. *Problem of the package.*—Quite as important as the trade name and the trade-mark is the consideration of the cost, size, shape, weight, distinctive qualities and advertising value of the package, if the goods are to be sold in packages. One manufacturer of corn flakes bases his whole advertising appeal on the fact that his package is somewhat larger than those of rival manufacturers. Two of the best-known brands of shaving soap are so similar in quality that the marketing appeal for a time was limited to rival claims for the different kinds of boxes in which the shaving sticks were sold. There is a growing custom to fix upon one uniform style of package and to retain it for every member of a family of products. This plan has great advertising value.

16. *Charting the selling points.*—Careful inquiry into the product before the marketing campaign, is designed to bring out facts that will be helpful in the selection of the best way of reaching the market. After the general plan has been made, the product must again be the subject of careful inquiry for the purpose of finding the selling points that will be most effective in making sales. The salesman and the advertising man must pick the product to pieces so that its every aspect, its every use, may be known and utilized in the marketing appeal. One sales manager has an interesting series of charts that he has constructed to aid him in finding the facts regarding his product, and then in keeping those facts constantly before him.

The first chart has five columns, one for each of the senses, and in each column are the physical facts about the product that appeal to some one of them. The second chart is one of functions; it shows what the product does. The third tells where and by whom it is made. The fourth goes into detail in showing what the goods are made of and how. The fifth lists the most important sales arguments to consumers, and the sixth does the same thing for dealers. This is suggestive of what might be advisable for everyone who has something to sell. The selecting of sales arguments, of course, lies within the field of the psychology of salesmanship and of advertising, because the selling point which the manufacturer may believe to be the strongest may prove entirely incapable of selling the goods. It is said that the manufacturers of Valspar varnish based their selling appeal at first on the quick-drying feature of their product. This interested dealers, but consumers were indifferent to it. The consumer campaign was not a success until the emphasis was placed on the claim that the varnish would not be discolored by water.

17. *Demand for the product.*—Between the study of the product and the study of the market lies a field that reaches out and overlaps on each side. This is the study of the product in its relation to demand. Simultaneously with the first plan for the product in the manufacturer's mind comes the thought, "Will people want it? Is it worth while to make it? Will there be a sufficient demand for it to warrant putting

money and time into it?" If the answer is in the affirmative, at some stage in the plan there must be careful consideration of the following points:

18. *Nature of demand.*—Is the demand expressed or unexpressed? Do people now realize that they want the article, or must they be educated to their need of it? If the product is one of a number of similar products, the manufacturer will find that he is helped by all the selling effort of others, and he will ordinarily have precedents to guide him in selecting the most effective selling route; but if he is a pioneer, his problem is immensely more difficult. The manufacturer of a new brand of oat-meal in packages would find a more or less satisfactory route to the market already laid out for him. The first manufacturer of a vacuum cleaner, on the other hand, had a tremendous marketing problem to solve before he got returns on his investment.

19. *Necessity or luxury.*—The selling plan will be partly influenced by the classification of the product as a necessity or luxury. These terms are merely relative; the luxury of today may be the necessity of tomorrow, or what is a luxury in popular thought may, in reality, be a necessity to which the public has not yet been educated. Typewriters were certainly not thought of at first as necessities in business, and in order to sell them the manufacturers had to adopt the expensive method of direct solicitation. They are necessities now even tho the selling plan has not been greatly changed. The increasing number of dif-

ferent kinds of outlets for the output of typewriter factories, however, indicates that the old method of selling is no longer universally necessary.

20. *Will the business be permanent?*—Is the product a fad or will the demand, once created, be permanent? If it is a fad, the campaign must be quick and productive of instant results. If the demand will be permanent, a considerable investment in good-will may be justified, and the plan may be based on the policy of going slowly but surely. A popular book dealing with the causes of the war and its conduct might be advertised widely and expensively in the expectation that the public interest would quickly respond to the advertising appeal. A manufacturer of a roofing preparation, on the other hand, would expect to get returns slowly; builders would not respond at once to his appeal; he would have to lay the firm foundations for future success by a careful picking of sales channels and by husbanding his resources so as to be able to continue the campaign during the time necessary for its cumulative effect to be felt.

21. *How many sales to a customer?*—How many sales will be made to a customer? A new brand of clothing might be pushed continually in a given territory because the customers could be induced to buy it over and over again. A manufacturer of office safes, however, could not operate in the same way. If any territory were completely worked, he would soon exhaust it and would have to move on to a new

market. The consideration of whether the product is to be a "repeater" or is to sell only once to a customer is of first importance in planning the marketing campaign.

22. *Are there selling seasons?*—Finally, when will the product sell? Is it in use all the year around, or is it seasonal? The marketing campaign of a distributor of garden seeds would be entirely different in many respects from the campaign of a manufacturer of fountain pens. The man who can get satisfactory returns from his selling efforts twelve months in the year will do business in a different way from the man who has, say, two selling seasons a year and who in the off-seasons must either lay off his selling force or use them as immediately unproductive trade missionaries.

SUMMARY OF STUDY OF THE PRODUCT

- Making sure of the product.
  - Technical tests.
  - Practical tests.
- Conditions of manufacture.
  - Raw material.
    - Who controls it?
    - Is supply sure and steady?
    - Does the price fluctuate?
  - Plant capacity.
    - Present capacity.
    - How much of it is used?
    - What increase in business can be cared for?
    - Opportunity for expansion.
  - Labor supply.
    - Is labor skilled or unskilled?
    - Is supply always adequate?

        - Possibility of labor troubles.
    - Cost of manufacture.
        - Cost in minimum quantities.
        - Unit cost for expected increase in business.
- Capital of the business.
    - What part of it can be used for marketing?
    - Can it be readily increased?
    - How much increased business will present capital care for?
    - What rate of return must be earned?
    - Must returns be quick?
    - Influence of stockholders in selection of selling methods.
- The name.
    - Legal questions.
    - Practical questions.
    - Value of distinctiveness.
    - Ease of pronunciation.
    - Length.
    - Suggestive value.
- The trade-mark.
    - Advertising value.
    - Protection.
    - Coordination with other publicity schemes.
- The package.
- Charting the selling points.
- Demand.
    - Expressed or unexpressed?
    - Is product necessity or luxury?
    - Fad or staple?
    - How soon will territory be exhausted?
    - The question of selling seasons.

REVIEW

This chapter and the three that follow it are for reference in planning a sales campaign. Read them carefully, and then ask yourself the questions that they suggest about the business in which you are engaged.

Using the Summary of Study of the Product, see whether you have the complete knowledge of the product of your business, which is essential to careful marketing.

CHAPTER XVI

STUDY OF THE MARKET

1. *What is meant by the market?*—The study of the market follows the study of the product. The market, for the purpose of this study, is made up of those people who chiefly influence demand. Even for the manufacturer who sells thru jobbers and retailers, the most important part of the market is the ultimate consumer. If a manufacturer makes cardboard cartons for package goods, his chief market consists of other manufacturers who buy the cartons for their products, and for him these other manufacturers are the ultimate consumers. In the same way, dealers themselves might be the most important part of the market for a manufacturer producing store fixtures. In every case, of course, the middlemen are a part of the market, but the first study of the manufacturer must be directed toward those who use his goods instead of toward those who merely add place and time utility to them.

2. *Purpose of market analysis.*—The market is studied to ascertain the most effective and economical method of marketing. The market facts that are worth investigating in one business are not always the same as those worth investigating in another business.

The points presented in this chapter are merely suggestive. Ordinarily most of them must be considered, and ordinarily each business will present other phases of market analysis that are peculiar to it and which must be taken into consideration before the plan for the campaign is completed.

3. *Who compose the market and where do they live?*—The manufacturer must first find his market. If he is putting out a new brand of talcum powder, for instance, he asks: Who is going to buy it? To whom must he appeal? Who are the people who are to influence demand and determine his success or failure and where will he find them? He must decide whether his market is to be found among men, women or children, and he must remember that the people who will actually pay their money for his goods are not necessarily the ones who really influence the purchase. Manufacturers of automobiles are advertising to some extent in boys' magazines, because it is thought that the boy often exercises influence in the purchase of a motor car. Few men control the family choice of a piano, but the man of the household usually buys the instrument. Life insurance is sold chiefly to men, but thousands of policies would never be placed except for judicious sales activity directed toward those who are to be the beneficiaries. The question as to who should be the chief object of the selling appeal is often a nice problem, requiring great care in the solution. The manufacturers of business phonographs are facing this problem, and are doing

an interesting work in harmonizing the apparently conflicting interests of stenographers and office managers.

Often, however, a single appeal can be made because the person who actually buys is influenced only by his own opinions and needs. Whether he is a man, a woman or a child is a question of importance in the choosing of sales channels and sales and advertising arguments, in standardizing the personality of the sales force, in fixing prices, in deciding on the use of demonstrations or of sampling campaigns, and in many other phases of the manufacturer's plan of marketing.

Are the possible purchasers rich or poor? What are their occupations? Are they lawyers, hod-carriers or railroad employes? Obviously these questions have a bearing on sales methods. A piece of expensive jewelry can be profitably sold by high-grade salesmen calling on the exclusive jewelry trade. Cheap jewelry which is to be sold in variety stores must be marketed in an entirely different way. The trade channels, the prices, the advertising mediums, the sales appeal for an article to be sold to professional men must differ greatly from the methods used in reaching the market of day laborers.

Finally, what is the environment of the possible purchasers? Do they live in the city, in smaller towns, or in the country? For some articles the answer to this question is easy. The manufacturer of windmills would scarcely seek his market in the cities.

For many products there is a choice of markets; the goods may be used either by city or country dwellers. In such cases, the problem becomes one of selecting the line of least resistance.

Buying habits must be considered. A manufacturer of a new line of hosiery analyzed the situation and decided that city people have been more accustomed to buying hosiery by brand names than people who live in the country. Accordingly he decided that he would have less competition and would be able to build up a firmer business by directing all his appeal to the country trade than by seeking to enter the strongly competitive city markets. Many manufacturers are finding with surprise that they have overlooked important markets by confining their activities either to the city or the country field. Perhaps the growing realization of the importance of the farm market is the most notable feature of present-day selling.

4. *Where is the market?*—Is the market international, national, sectional or local? Is the product suited to only one locality or is its use wide-spread? Yellow laundry soaps are generally used thruout the United States, but in the states of the Northwest the demand is chiefly for white laundry soap. The manufacturer of such a product would find his market defined by relatively sharp geographical lines. Transportation problems naturally limit the size of a market. A brick manufacturer cannot ship his product great distances. The possible market is often of

national or international scope, and the selection of only a limited part of it for the sales activities of a manufacturer is a matter of conscious policy based on competition problems, limited manufacturing and marketing resources, or other reasons that dictate a partial development of the available market.

Manufacturers sometimes fail to reach out as widely as they might because of ignorance of the extent of the market or because of ignorance of the methods of getting trade outside of a narrow field. American manufacturers have ignored the foreign market partly for these reasons, and partly because the complete absorption of their product at home did not necessitate a search for a wider field abroad. This condition is changing. Political as well as economic reasons are urging manufacturers to develop their export trade; and with the increase of the agitation for foreign trade relations, we can expect to see radical changes in the sales policies and sales methods of American manufacturers.

Climatic conditions are often important in guiding a manufacturer to his natural market. Umbrellas are not a lively commodity in New Mexico; fur coats do not find a market in Louisiana; nor are cotton-gins sold in Minnesota. This is a matter of common sense, as are most of the other considerations in market analysis; yet the story of the manufacturer who tried to sell woolen caps in Brazil is not unique in its evidence of the failure to apply common sense to marketing problems.

5. *When can the product be sold?*—Selling methods will also depend on buying seasons. In certain lines the seasons are seemingly fixed beyond the possibility of change. Men's clothing is bought by the consumer in the spring and fall, gardening tools are chiefly purchased late in spring or early in summer, and the jewelry business is at its height at Christmas. In lines in which buying is seasonal, the manufacturer must ascertain the buying seasons both for consumers and for dealers, because the dealers' season naturally precedes the consumers'. He makes his plans carefully so that the activities of his salesmen will be focused on the trade at the proper time, and so that his consumer appeals will have their greatest cumulative effect at just the right time to influence the seasonal purchases.

In connection with the sale of so-called seasonal goods there are two interesting developments. One is the growing custom of continuing consumer advertising thruout the year in order thereby to fix more firmly the advertiser's brand in the minds of the buying public. This practice is exemplified by the year-round advertising of the manufacturer of a brand of summer-weight underwear. Another development is the attempt to put goods that were formerly seasonal sellers into the all-year-round class. It is said that before the extensive advertising of Sapolio began many years ago, scrubbing soaps and cleaning compounds sold chiefly during the customary semi-annual housecleaning periods. Now the sales do not vary greatly from month to month. Retail dealers who formerly thought it was necessary to abandon their advertising, to lay off most of their clerks, and to spend most of their time keeping cool during the summer, have found that in most cities there are plenty of people in town during the heated term, and that increased selling efforts during that time will bring corresponding results.

Many manufacturers and dealers make a careful study of the occasions when buyers are in the market for their goods, and by the use of available records and intelligence, take full advantage of every opportunity to reach buyers at these times. Weddings and births are watched, and sales efforts directed toward those who might be in the market on the anniversaries of these occasions. Manufacturers of office equipment and home furniture keep in touch with those who have suffered loss thru fire. The record of building permits is a valuable index of possible buyers for dealers in all kinds of material. There are few kinds of business that cannot push sales by an intelligent use of clipping bureaus and other sources of information regarding possible buyers.

6. *How are purchases made?*—How those who compose the market make their purchases is a question of importance chiefly to the manufacturer entering an existing competitive field, but certain phases of it are also important to the pioneer. Do buyers of

the sort of thing that you are trying to introduce, ordinarily buy by brand or do they care little about the names under which goods are sold?

If they usually buy by brand, how strong is their attachment to the goods they are now using, and what can be your expectations of changing the direction of demand? It has been said that if an article contributes to the personal comfort, health, or appearance of the person for whom it is bought, or to the appearance of some of his possessions, his attachment for the article he has been using satisfactorily is much stronger than the effect of an appeal to utility, economy, or some other impersonal idea. A man who has found just the make and shape of collar that suits him is not easily influenced to buy another brand, while an inducement of price or proof of superior quality will readily induce him to abandon the kind of office ink he has been buying. Considerations such as these aid the manufacturer in estimating the amount of business he can hope to get in a competitive field and in determining the necessary strength and direction of his selling efforts.

Do the consumers in the desired market ordinarily buy directly from manufacturers or from dealers? Are they accustomed to seek their own sources of supply, or is personal solicitation of their trade the rule? It would be difficult simply thru the force of advertising to induce a business man to go to a store to make inquiry regarding an adding machine, because ordinarily he does not fully realize his need until a salesman has showed it to him. The number of people who voluntarily apply at life insurance offices for policies is so small as to be practically negligible. In these and other lines, consumers are accustomed to buy only after direct solicitation. On the other hand, a man peddling cigars from office to office might be looked upon with suspicion because smokers usually make their purchases at stores or by mail. Considerations such as these have a decided bearing on the sales methods to be followed by the new manufacturer.

There are other questions connected with the buying habits of the desired market to be considered. Do the people in the market expect credit? Will profits be decreased if credit is not granted? Do they buy in large or small amounts? Chewing gum for years has been sold in five-cent packages, one package at a time. One manufacturer has tried to alter this buying habit, and incidentally decrease his sales expense and increase total sales, by using the slogan, "Buy it by the box." In many cases, however, it is not wise to attempt to change buying habits, and the manufacturer will find it advisable to harmonize his selling efforts with existing custom in the market he is attempting to win.

7. *How much can be sold?*—No marketing campaign can be carefully planned that is not based on more or less definite knowledge of the consuming possibilities of the market. The manufacturer should try to find out the present total consumption of the

kind of goods with which his own is in competition, the total per capita consumption, the per capita consumption by states and towns, the increases or decreases in consumption, and all other pertinent facts that will help him in estimating the possibilities of the business and the amount of sales he can reasonably expect to make both when the campaign is new and during succeeding years.

The size of the market also has much to do with the amount to be spent in the marketing campaign. When a product is new and non-competitive, the size of the possible market is purely a matter of estimate. When the first safety-razor was offered for sale, the manufacturer had little basis for guessing how many people might be interested in it; the possible market might be said to consist of every male adult in the country. But the manufacturer of a safety-razor today has a basis for more definite figuring. He tries to find out the total sales of safety-razors in the United States, if he is confining his trade to the domestic market. It is not always easy to get information of this kind, but there are ways of learning business facts, and the careful manufacturer will find them. Statistics of production are available; well-informed advertising agents and large dealers can often make fair estimates; and several organizations make a business of digging out all kinds of sales facts and figures.

8. *Is the market growing or shrinking?*—Total present consumption, however, is not all that must

be ascertained. It is also necessary to find the rate at which the business is increasing. If the annual growth is large, the manufacturer entering the field can expect to get a share of the business with comparative ease, because rapid increase ordinarily means a relatively undeveloped market and a strong demand, part of which may be deflected from established brands. If the total business is stationary or decreasing, or if it shows only a small increase, the manufacturer seeking to enter the market or to increase the sales of a product already on sale should investigate the causes of this condition. He may find, first, that the market is limited and that it has reached the "point of saturation" in consumption; it is already taking all the goods it is capable of consuming. There are many such markets. The demand for candles, for instance, is not keeping up with the increase in population, because newer methods of illumination are driving candles from the field. A market of this sort is not a promising one. If a manufacturer wishes to enter it, or, being in it, wishes to increase his own business, he must fight a purely competitive battle; his gain will be his competitors' loss. If his competitors match his own activities, the result will be increased sales cost for all without corresponding increase in sales.

Such a condition, however, is not typical. Ordinarily if total sales in any field are not advancing, it is because those who occupy the field are not taking advantage of all the available opportunities. A manufacturer who ascertains this to be the case may enter a market with the reasonable hope of getting good returns from intelligent marketing efforts. He can direct his salesmanship and advertising primarily toward the educating of new customers. The total business will be increased, and he will get his share of it even tho his competitors may wake up and do their share in increasing consumption. A market that offers an opportunity for constructive sales activities is always more attractive and more profitable to a manufacturer than one that admits of merely competitive marketing methods.

9. *Comparison of consumption and production.*—Altho it is interesting to get facts regarding consumption for the entire country or even for the world, as indicative of the possibilities ahead of the successful business, the average small manufacturer will be interested immediately only in figures regarding consumption in the territory in which he wishes to operate. After obtaining figures for that territory he should compare them with his actual or estimated production. If the present consumption, taken into consideration with the expected increase based on the tendencies in the business, indicates that 100,000 bags of cement will be used the coming year in the district that the manufacturer can conveniently serve, and if his own annual production is 10,000 bags, he must get ten per cent of the total business if he is to operate his factory to capacity. Can he get this percentage?

Here enters the problem of competition. Who else is getting the business?

10. *Study of competition.*—In connection with competition there are many questions to be asked and answered. How many competitors are there? The exact number can readily be learned from trade lists prepared by commercial agencies and trade publications. How long has each one been in business? What are the resources of each? Commercial agencies can also give information of this kind. It is valuable to the manufacturer because it shows him the strength of the competitive army with which he must fight for business; he will hope to do his part in making new customers, but even for this new business he must compete with the other manufacturers in his field. The modern business man does not do much talking about his competitors, but he knows who they are, what they are doing, and what they are able to do in the field in which he is operating. To ignore competitors is to fight in the dark.

11. *Relative strength of competitors.*—One of the most important questions to be asked regarding competitors is the percentage of the present total business obtained by each. Suppose a manufacturer finds there are fourteen competitors in the territory that is naturally his. One of them gets seventy-five per cent of the business, one gets ten per cent, and the other twelve divide the remaining minute portion. This indicates overwhelming strength on the part of one

competitor, and unusual weakness on the part of the others. If the new manufacturer needs ten per cent of the business in order to keep his plant running, in many cases he would decide that it would be cheaper and easier to go after the business of the trailers rather than to try to make a dent in the trade of the overshadowing leader. The progressive manufacturer is usually more eager to enter a market in which there are a few dominant figures and many unimportant trailers than one in which a large number are striving evenly for the business. If the biggest manufacturer now in a market gets only fifteen per cent of the total business, and if he is closely followed by many others who get from ten per cent to twelve per cent of the trade, the new manufacturer who plans for a large output must rank from the outset well up among the leaders if he is to keep his plant busy. This is not an easy task, and the manufacturer attempting it must be well backed by capital and selling strategy.

Another important question involves the present good-will of each competitor. What has been the rate of increase in his business? Has he stood still, or does a healthy growth indicate growing good-will and good selling ability? How is he thought of in the trade? Is it going to be easy to compete with him, or is he likely to match any trade-drawing activities that are launched by a competitor?

12. *Competitive marketing methods.*—Finally, what are the marketing methods of each competitor?

What is the policy of each one with respect to sales channels, advertising, credits, dealer cooperation, and all the other things that go to make up the details of a sales campaign? The purpose in ascertaining these facts is not to enable the investigator to copy the methods of his competitors. Good business is not imitative. The purpose is to permit the investigator to take advantage of the mistakes of others, and to guide him in following custom where customary methods—the line of least resistance—seem to be the best for the given conditions. Novelty in sales methods is often valuable, but novelty at the cost of the good-will of dealers or consumers is foolish. Often the old ways are the best.

One phase of competitors' marketing methods that must be closely studied is that which has to do with prices and profits. It is essential that every factor in the field should know the prices charged by all his competitors to jobbers, to retailers and to consumers, and the profit that each factor in distribution makes on each line of competing goods. Prices are finally fixed by competition, and the facts of competition are presumably registered in the prices of the goods already in the field. The manufacturer who offers a profit so low that the dealers cannot pay their selling expenses out of it will not get their cooperation. A price to consumers that exceeds competing prices and does not give in return greatly increased value will kill a campaign. A price that is much below the market will needlessly disrupt trade relations and is likely to result in reprisals and ultimate disaster. Competitors cannot and do not get together to fix prices, under a market system of real competition, but the organization of the market is such that there is a perfectly natural trend toward relatively uniform prices for uniform goods.

13. *Transportation problems.*—The last phase of study of the market is concerned with transportation problems. The factory in the first place must be located logically with reference to the raw materials and the market. It seems inconceivable that a man would put up a canning factory in New Jersey without adequate analysis of the situation, and find, too late, that he was 500 miles away from his raw material; and yet this was an actual incident. Fortunately such incidents are not common, but they indicate the need for common-sense study of the situation before any money is spent to make or market a product.

The extent of the market is definitely limited by the ability of the manufacturer to ship his goods quickly and cheaply. Unless a product is a novelty which cannot be duplicated by competitors, or unless the manufacturer has given the name of his brand such wide publicity that it takes on the nature of a specialty, he cannot hope to extend his market much beyond the area in which shipping charges from his plant are less than from a competitor's establishment. Branch warehouses help to widen his area of operations, and a great national sales organization can often lessen the handicap of high shipping charges. But regardless of these things, the problem of transportation is always a vital one, forcibly affecting the size of the market, the prices for the goods and the profits of the manufacturer.

It is interesting to note that jobbers have the same shipping problems as manufacturers. The Claflin failure in 1914 is said to have sounded the knell of long-distance jobbing from the East. The jobbing center of the country has inevitably shifted to Chicago and St. Louis as the westward trend of population has made national jobbing operations centering in New York more and more of an impossibility.

SUMMARY OF STUDY OF THE MARKET

- Who are the people that make up the market?
    - Consideration of those who buy and those who influence the buyer.
    - Men, women, or children?
    - Rich or poor?
    - Occupations?
    - Environment—city, town, or country dwellers?
- Where do they live?
    - Is market international, national, sectional, or local?
    - What limits it?
    - Can it be extended?
    - Climatic influence.
- When do they buy?
    - Buying seasons?
    - Extending the seasons.
    - When do buyers enter the market?
- How do they buy?
    - Is it hard or easy to change buying habits?
    - Do they buy from dealers or from manufacturers?
    - Do they expect credit?

  - Do they buy in large or small quantities?
- How much will they buy?
  - Total consumption of all competing products?
  - Is the market growing or shrinking?
  - Total consumption in restricted territory?
  - Per capita consumption?
  - Comparison of consumption and production?
- From whom do they buy?
  - Total number of competitors?
  - Resources of each?
  - Relative strength of competitors?
  - Prosperity and good-will of each?
  - Marketing methods of competitors?
    - Sales channels?
    - Prices and profits?
- Transportation problems.
  - Influence on size of market.
  - Influence on prices, profits, and other selling factors.

REVIEW

Apply to the business of which you have the most intimate knowledge the questions in Summary of Study of the Market.

Have you the complete knowledge of the market and of competition which the Text considers necessary?

CHAPTER XVII

REACHING THE MARKET

1. *Lack of standards in selling.*—All this preliminary study helps the man with something to market to reach the people who might buy it. It is the foundation on which the campaign must be built. When the time comes to use the information that has been collected in preparing for the campaign, the great difficulty of successful selling becomes apparent. Selling is not standardized; very few of its practices have been reduced to rules and principles. Except in a small minority of cases it is not possible to say that with certain facts about the trade, certain facts about the product, and certain facts about the market, such and such a method of selling must be adopted in order to insure certain results. If the marketing of a product could be reduced to set rules, everyone with anything to sell could be sure of a fortune. All the romance of business would be gone.

2. *Importance of right judgment.*—Uncertainty of results in marketing is due chiefly to the uncertainty of human judgment. There may be the most careful marshalling of all known facts regarding the trade, the product and the market. The exact balancing of the various parts of this information might result

in exactly the right decision as to how to sell the product; and yet no one can be exactly certain that he has given just the right weight in his judgment to each of the factors involved. A manufacturer's investigation, for instance, may have uncovered a seeming need for his product among a certain class of people, the dealers in the field may be seemingly open to proper approach, and competition may, in his estimation, be negligible. Relying on his careful investigation, he may adopt a certain selling method which practically ignores competition, only to find that his competitors have reserve resources and strength that even his careful investigation could not uncover. It is this fallibility of human judgment which makes selling uncertain.

The greater the amount of the data collected preliminary to the campaign, and the more exact it is, the less likelihood there is of wrong decisions. The possibility of making a wrong decision on the basis of collected data is no excuse for doing without data entirely and rushing into a marketing campaign with only whim and limited personal experience as guides.

3. *Campaigns must be made to order.*—It is not the purpose of this and the following chapter to tell any given manufacturer how to market his product. Campaigns do not come ready-made; each one must be built to fit peculiar conditions. Our purpose is simply to suggest the steps that must be taken in any complete campaign, and to indicate how some of the facts gleaned in the survey of the trade, the product

and the market may be organized and used as a basis for the solution of some of the many problems involved in reaching the market.

4. *Trade channels.*—In the actual plan for the campaign, following adequate preliminary study and investigation, the first thing to do is to select the right trade channels. The selection can be rightly made only with full knowledge of the functions of the various types of retailers, the place of the jobber, and the relation of all middlemen to one another and to the manufacturer.

All the possible methods by which a manufacturer may market his goods in the domestic trade are shown in the following outline:

A. Manufacturer direct to consumer.
    1. Thru solicitors or canvassers.
    2. By mail.
    3. Thru the manufacturer's own retail stores, usually conducted on the chain-store principle.

B. Manufacturer direct to retailers.
    He may reach the retailers either thru salesmen or by mail.
    1. He may deal with one or more of these kinds of retailers:
        a. Country general stores.
        b. Specialty stores.
        c. Department stores.
        d. Chain stores not owned by the manufacturer.

        e. Mail-order houses.
        f. Cooperative buying organizations of retailers.
    2. He may sell generally to all retailers in a selected class who will buy.
    3. He may confine sales to one retailer or a few retailers in a community.

C. Manufacturer direct to jobbers.

He may reach the jobbers either thru salesmen or by mail.

His goods may be distributed to any desired class of retailers by:

1. All jobbers who will cooperate with him.
2. Selected jobbers having exclusive jobbing agencies in restricted territories.

D. Manufacturer direct to special representatives.

He may reach them by salesmen or by mail.

These special representatives may sell to jobbers, retailers or consumers.

They are:

1. Agents.
2. Commission men.
3. Brokers.

5. *Exclusive or combined use of trade channels.*—Some manufacturers select one of these possible trade channels and send their goods thru it exclusively. Others combine advantageously several trade channels in their plans of campaign. Some

manufacturers, for instance, confine their direct sales to jobbers. Retailers and consumers, regardless of the size of their purchases, cannot obtain goods direct from the factories. The manufacturer who follows this plan desires to obtain the largest possible amount of cooperation from the jobbers by refusing to compete with them by selling to retailers. Other manufacturers sell both to jobbers and to retailers. Some of this class will sell to any jobber and any retailer; some will sell only to those large retailers who refuse to purchase thru jobbers. There are still other manufacturers who will sell direct to anybody, jobbers, retailers or consumers. Others ignore the jobber and either sell direct only to retailers, or deal with both retailers and consumers.

The possible combinations of trade channels are almost numberless. Whether a manufacturer is to sell thru one or more channels, whether he is to use salesmen or the mails or both, depends partly on custom in the trade, partly on the nature of his product, and partly on his ability to see new methods of marketing, to overcome tradition, and to adapt to his own use all marketing plans that appeal to him as offering new opportunities for the sale of his goods.

6. *Direct sales to consumers.*—Where the nature of the product permits direct sales either to consumer or dealers, the manufacturer should consider the advantages of dealing direct with consumers by mail, by salesmen, or by his own retail stores. They are: (1) The manufacturer who deals in any one of these

ways knows exactly where his goods are being consumed, and he can direct his advertising and sales efforts accordingly. (2) He has absolute control of his market; he has no problem of price-cutting, substitution or lack of dealer cooperation. An offset to these advantages is found in (1) the great expense of direct selling in most cases and (2) the antagonism of dealers.

7. *Direct sales to retailers.*—When the product is such that it might be sold directly either to retailers or to jobbers, a policy of confining sales to retailers may be dictated by the following considerations: (1) The manufacturer who sells to retailers usually knows where his goods are being consumed. (2) When the manufacturer's salesmen call on the retailers, they may give some of their enthusiasm to the dealers and get them to push the goods energetically. (3) Many retailers will not purchase thru jobbers, and their trade is often important to a manufacturer. (4) If price maintenance is a problem, the manufacturer who deals direct with retailers may sometimes make them his agents, send them his goods on consignment, and thus avoid the legal difficulties of maintaining prices. The manufacturer who sells thru jobbers ordinarily is not in a position to do this. The disadvantages of direct sales to retailers are (1) the cost of maintaining a large selling organization or of extensive dealer advertising, (2) the financial risk involved in assuming the jobber's function of warehousing and of grant-

ing credit, and (3) the organized opposition of the jobbers.

8. *Direct sales to special representatives.*—Agents, commission merchants and brokers are independent distributors who stand between the manufacturer or dealer and his primary market. When a manufacturer or dealer elects to distribute his goods thru these special representatives, it is usually because he would be at a disadvantage in trying to sell thru a sales organization of his own. This disadvantage might be occasioned by one or more of the following causes: (1) Limited capital; some manufacturers of textiles sell to commission houses that advance them the money needed to turn out the product. (2) Limited demand; in a small city the demand for office safes, for instance, is not large enough to justify a manufacturer's representative giving his entire time to local trade. (3) Unfamiliarity with the market; some manufacturers are specialists in manufacturing only, and having neither time nor money to study the market, they solve their marketing problems by selling to brokers. (4) Peculiar organization of the market; stocks, bonds and produce, for instance, are usually purchased in quantities only thru exchanges or boards of trade, on which trading is confined to members who are commonly called brokers.

9. *Elasticity of the manufacturer's organization.*—Our list of trade channels does not show the various aids that may be given by the manufacturer's own

organization in the marketing of his product. It has been suggested that he may reach any class of buyers by salesmen or by mail; but it should be remembered that his salesmen and his mail-sales need not focus at the home office or factory. There may be an extensive organization of district managers, branch offices, branch warehouses, and even branch factories. We are not concerned now, however, with the manufacturer's organization. We are concerned with the trade channels, not under his own control, that he selects to serve him. Not until these trade channels are definitely selected can he plan for a suitable organization to enable him to connect with those channels.

10. *Trade channels constantly changing.*—Trade channels are no longer standardized. One manufacturer of aluminum kitchen utensils firmly supports the jobber; another sells direct to retailers; a third deals only by mail with consumers; and a fourth pins his faith to house-to-house canvassing. One manufacturer may use different channels in different markets. A long familiar method of marketing may be changed overnight by some manufacturer, without any radical change in the product or in the character of the market.

This does not mean that the selection of trade channels is a matter of whim. The whole marketing world is in a state of flux, and the man with something to sell must not take accustomed marketing methods for granted. Close analysis to determine what is the one right method for him and his goods is more necessary now than ever before if competition is to be met and sales are to be increased. In this analysis the manufacturer is guided by all of the considerations of the product and of the market that we have already discussed. The comparative influence of each of these several considerations differs for every product.

11. *The influence of custom.*—The line of least resistance is often the best for the manufacturer to follow. Customary methods of selling should first be considered. No one should follow them simply because they are customary; but, if they prove to be adapted to his use, the fact that they are more or less standard will help him in his distribution. As grocery specialties are usually sold by retailers who purchase from jobbers, the small manufacturer of such a specialty ordinarily finds it advisable to sell thru established channels. Machinery is ordinarily not sold by jobbers, but thru branch houses, agents and retailers. The machinery manufacturer would not try to cut new paths for his goods until he had carefully considered the advisability of selling in the same way as his competitors. Clothing is largely sold by direct sales to exclusive retail agencies; few clothing manufacturers seem to care to deviate from this established system.

Customary methods of marketing often restrict sales unnecessarily. Chewing-gum has been sold chiefly by dealers in drugs, groceries and candies. The United Cigar Stores Company decided that gum could also be sold by tobacco stores, and formed a company to manufacture and sell it thru its own chain of shops. The same company came to the conclusion that candy could also be sold in cigar stores, and has started a movement in this direction which seems sure to be followed by others. Jap-A-Lac was at first sold only thru established channels in the paint trade. A careful analysis pointed to the probability of successful sales thru department stores, drug stores and even grocery stores. The product is now on sale in all of these as well as other kinds of retail stores. Custom helps in selling, but, if it is blindly followed, many avenues of marketing are likely to be undiscovered.

12. *"Shopping" lines and "convenience" goods.*—Mr. C. C. Parlin, manager of the Division of Commercial Research of the Curtis Publishing Company, has contributed much to the standardizing of marketing methods by his investigation of the field of the department store. He defines a "shopping" line as one that is bought only after comparison of values has been made in several stores. The higher priced goods purchased largely by women are usually in this class; for instance, ready-made clothing, millinery, the better grade of dress goods, furniture, rugs and carpets, etc. "Convenience" goods, on the other hand, are bought without comparison of values. A customer is influenced to buy convenience goods at one store in preference to another by (1) the convenient location of the store; (2) the impulse of the moment, suggested

perhaps by the sight of a desired article in a window; (3) custom, which holds the trade of a customer after it has been once attracted; (4) the desire to buy a specific brand which is on sale only in certain stores.

Some men's goods are shopping lines. A man certainly shops for the expensive things that he uses in his business and for the more momentous purchases for home and family; for instance, he compares values when he buys an automobile or a furnace. But ordinarily a man does not shop; he selects his store for the same reasons that influence a woman to select a store in which to buy convenience goods, and he buys in that store what he asks for or what is offered him if it seems to suit his purpose.

13. *Shopping centers.*—Mr. Parlin has also found that some communities attract more trade from the surrounding districts than they lose to other communities. These towns or sections of a city he calls shopping centers. Women center their purchases there in shopping lines. Each of these shopping centers is likely to have three department stores or other establishments handling shopping lines, because women seem to like to compare values in at least three stores. If there are more than three department stores, they can usually be classified in groups of three each, the classification depending on the grade of goods carried and the people appealed to.

From these conclusions it may be possible to establish certain principles. If a manufacturer is marketing something that can be classed as a shopping line and which is bought chiefly by women, it is often advantageous for him to confine its sale to one of the three competing stores in each shopping center, because he can be reasonably sure that all possible purchasers in the community will visit that store before finally buying. If exclusive agencies are thus granted, direct selling to the retailers is often the most economical and satisfactory sales method, on account of the relatively large purchases of each dealer. Department stores depend almost entirely on the trade of women; they are usually more anxious to handle shopping lines than convenience goods, because the great majority of the latter are bought in local specialty shops. Accordingly, the department store seems to offer the most desirable trade outlet for the manufacturer of a product that appeals chiefly to women and that can be classed as a shopping line.

On the other hand, in marketing convenience goods the exclusive agency is not desirable, because sales will be increased by having the goods on sale in as many stores as possible. Moreover, many goods of this sort are ordinarily marketed thru jobbers, because the majority of the retailers purchase in small quantities. If department stores handle a convenience line, they cannot monopolize its sale; most of the customers of a department store visit it chiefly to shop, and only buy convenience goods there for one or more of the reasons already given.

14. *Unfamiliarity of the product.*—If goods are new and the public is unfamiliar with their use, they

must often be sold direct to consumers. Vacuum cleaners were in this class when they were first marketed. The same consideration may dictate a policy of introducing a product by demonstrations in retail stores. An invention for cleaning silver was successfully marketed in this way. The unfamiliarity of the goods may again induce the manufacturer to select one distributor—jobber, retailer, or mail-order house—to push his product in return for an exclusive agency. The pioneer in the kitchen cabinet field was marketed in this manner.

15. *Necessity of unusual selling effort.*—Cash registers would never have been used extensively if the manufacturers had depended on jobbers to market them. They can be sold only by specially trained salesmen. Sometimes a retailer in a community can be induced to learn a difficult line sufficiently well to sell it to his customers, in return for an exclusive agency contract, but more often direct sales are the best method of reaching buyers with an article that must be backed by real educational salesmanship. The development of advertising as a creator of demand may possibly change this situation. At the beginning of a campaign, however, the manufacturer will ordinarily link up the advertising with strong personal sales effort.

Allied to the necessity of unusual selling effort is the frequent necessity of special attention to consumers after the sale has been made. Automobiles illustrate this latter necessity. The buyer expects the man who sold him a car to lend a hand if troubles develop after he has purchased it. Department stores and mail-order houses have been known to handle automobiles, but the great majority of automobiles and other articles requiring much attention to keep the customer sold are marketed thru the manufacturer's own sales force, independent selling agents, or local specialty dealers with exclusive contracts.

16. *Other influences.*—Product and market analysis affect sales methods in countless ways. The following suggestions emphasize some things that have gone before and that are indicative of the value of analysis in any marketing campaign. If goods cannot be sold by description, printed advertising alone must not be depended on to create a demand. If the demand is not extensive, direct sales are often not possible; established middlemen must be used. If jobbers and retailers do not give the desired cooperation, or if the market is demoralized by price-cutting on the part of dealers, a manufacturer may be forced into direct selling. If a manufacturer's capital is small, he ordinarily cannot assume the risk-carrying feature of the jobber's or retailer's activities; he must usually sell thru dealers. If his profit is small, the selling expense must be kept down, and sale thru established agencies may be necessary even at the cost of the greater sales that could be made by direct solicitation of consumers. Long credits demanded by retailers may force the manufacturer to deal thru jobbers. If the independent retailer will not carry a manufactur-

er's complete line, he may have to start his own stores. It is said that the W. L. Douglas shoe stores were established for this reason.

The manufacturer may find that his product and his market are adapted to a number of different selling methods; in such case, his choice of sales channels depends on expediency, policy and the attitude of the middlemen. If a product is new and non-competitive, the manufacturer may forge out his own marketing method; but if it is in competition with old established lines, it must often meet competition by going thru the same channels as competing goods.

REVIEW

What trade channels are used by the business with which you are most familiar? Why were they chosen? Does your study of the Text suggest the advisability of any alteration of trade channels?

What are the more important considerations that influence the selection of trade channels?

What are "shopping lines" and "convenience goods," and what have these classifications to do with the selection of trade channels?

CHAPTER XVIII

THE COMPLETE CAMPAIGN

1. *Price.*—One of the most important steps in planning the campaign is the price to be charged for the product. So important is a right price that it is sometimes considered even before sales channels. On it depends gross profits, and out of gross profits must come all the expense of selling.

Price, as everyone knows, primarily depends on supply and demand. While the relation between the number of articles produced and the demand for those articles generally fixes the price for which they can be sold, a manufacturer in selecting a price for his goods must have something more tangible to deal with than the rather vague factors of supply and demand. One kind of price is selected on the principle of charging "all the traffic will bear"; another is selected with due regard to a fair profit for the manufacturer, and yet with the purpose in mind of making the price low enough to cultivate consumer good-will. In practice, these two methods of selection often merge into each other. With the advent of keen competition, the day has passed when many manufacturers can arbitrarily set a high price and make abnormal profits on each sale. The necessity of building up good-will and of discouraging possible future competition is steadily narrowing the margin between manufacturing cost and selling price.

2. *Components of price.*—Retailers often set prices by the formula: cost of the goods *plus* average selling expense *plus* desired net profit *equal* selling price. This simple method of pricing, however, cannot be used by the average manufacturer, altho the factors in the manufacturer's price are the same as those in the retailer's. The manufacturer's price must cover the cost to produce. This consideration involves the problem of keeping the factory busy. The unit cost of manufacture is usually at a minimum when the factory is running at full capacity, and a low selling price may prove more profitable than a higher one that would possibly restrict sales and decrease the amount that could be profitably produced.

Expenses of selling must also be cared for in the selling price. These depend strictly on the selection of trade channels, as the expenses include discounts for jobbers, retailers and possibly other middlemen, as well as the cost of the sales force and the advertising that may be used by the manufacturer.

Profit must always be considered. The net amount left after deducting cost to manufacture and all expenses of selling must be sufficient to recompense the manufacturer for the risk he runs. This element is elastic; a certain net profit is usually provided for in the figures that determine price, but it is likely to be subject to much reduction, as the selling expenses, aided by marketing conditions, press it back, sometimes to the vanishing point.

3. *Influence of the market.*—Desired profit and expense of selling are not dependent on the mere inclination and efficiency of the manufacturer. Three things over which he has no control may force him to be satisfied with a scanty profit and to be content with small business because of the necessity of keeping selling expense at an absolute minimum. One is the nature and value of the service rendered. The public will pay much for a vacuum cleaner, a talking machine or an automobile, because of the valuable service rendered by these articles; but it can seldom be induced to pay much for a kitchen utensil or a cake of laundry soap. Again, the ability of possible customers to pay must also be considered. To achieve maximum sales a fountain pen, for instance, must reach a market largely composed of people of limited means; the price must be within the reach of the average individual, and therefore the profit on each sale must be sliced to a minimum. A player-piano, on the other hand, intended to go only into the homes of the well-to-do, may bring a price that covers large unit selling expense and proportionately large profit.

The selling price finally must be determined by competition. This factor has already been considered in Chapter XVI. The number of competitors in the field, the prices that they charge, the possibility of future competition—all these things closely restrict the ability of the individual manufacturer to name his price. In practice the manufacturer usually finds out first what competitive conditions will permit him to charge, and then, with a known gross profit, he sets aside for selling expenses such part of the margin as he can afford, and keeps what is left for profit.

4. *How to reach buyers.*—The determination to sell by means of salesmen, aided or not by advertising, or by mail-order methods, is a step in the plan for the campaign that both aids in fixing the price and is, in turn, largely influenced by the price that can be charged. The question of how to sell is usually answered at the same time that sales channels are selected, because the sales channels and the best method of reaching them are simply two phases of the same problem.

There are few general principles to guide the manufacturer in deciding how to sell. The problem has several parts. Shall the selected trade channels be cultivated by salesmen, by mail, or by both? If mail selling is to be attempted either to dealers or to consumers, advertising must be used to initiate the mail inquiries. If salesmen are to be used, shall they be relied on alone to make sales? Shall they be aided by advertising designed to send consumers to stores to make their purchases, or to influence dealers favorably toward the advertised goods so that the task of the salesmen will be rendered easier?

We are not to discuss here whether selling by salesmen or by mail is the better method in any particular case, or whether advertising should or should not be used as an aid to the salesmen. Our purpose now is merely to point out that this problem must be solved early in the plan for the campaign, and to indicate its relation to the other steps in the plan.

5. *Sales policy.*—The various factors in sales policy are sometimes left to be standardized as the need is developed in the working out of the campaign. This is wrong. Sales policies should be determined in advance, as well as prices, trade channels and selling methods. Many things are a part of sales policy. Among them are credit, quantity prices, fixed prices and guarantees.

6. *Credit.*—To what extent is the business to be conducted on a credit basis? If the industry is one in which cash sales are the rule, shall the individual manufacturer take advantage of this fortunate condition, or shall he offer credit as a selling point in his attempt to get business? For many years automobiles have been sold largely on a cash basis. Some manufacturers are now openly offering credit as a buying inducement. Before a manufacturer does this, he should very carefully consider what effect his action will have on his own business, the industry as a whole, and on public opinion. On the other hand, if credit is the rule, the determination to do business on a cash basis may, while reducing accounting and losses, result in small sales at the beginning and very slow development of the business. The decision to grant credit or not to grant it, and, if the former, the par-

ticular terms to be offered, form problems of first importance in the plan for the campaign.

7. *Quantity prices.*—Another phase of sales policy involves the prices at which various quantities of the product are to be sold. This is a different matter from the selection of the price for the unit ordinarily sold. Its importance is illustrated in the breakfast-food field. One manufacturer for years has refused any quantity prices; he has had a fixed price per case, no matter what the quantity purchased. Practically all other manufacturers in this field grant reduced unit prices on large quantities.

Which of these practices is a manufacturer to follow? Some of the arguments for quantity prices are the following: (1) It costs the seller less per dollar of sales to make a large sale, to pack the order and to handle the account; accordingly the large buyer should share in the saving. (2) When the buyer takes a large quantity at a time, he stores his surplus stock for himself, instead of requiring the seller to store it for him; he should, therefore, be compensated for assuming the storage function. (3) But with or without reasons it is customary in trade for the man with large buying capacity to get the minimum price, and the man with small buying capacity to get the maximum price. It is maintained that a manufacturer will injure himself by going counter to this tradition.

8. *Disadvantages of quantity prices.*—Manufac-

turers who believe in one price to all irrespective of quantities purchased, usually advance the following arguments: (1) In many lines the goods should not be sold in large quantities because of the danger of spoiling; spoiled goods on the dealer's shelves are bad for the manufacturer; accordingly, he should encourage minimum unit purchases by refusing quantity prices. (2) The success of the manufacturer depends on the success of his distributors; retail success is largely based on the principle of small stocks and quick turnovers; the manufacturer, therefore, should encourage the application of this principle by offering his best price for small purchases. (3) Finally, it is contended that a low quantity price to the dealer seldom means a lowered price to the consumer, because the shadings of prices for increased quantities are usually small. One well-known brand of soap, for instance, selling to the retailer at $3.50 per case of one hundred cakes, is priced at $3.45 per case in five case lots, and $3.40 per case in ten case lots. This small lowering of the unit price per case does not mean that the ten case buyer can charge the consumer any less than the one case buyer charges him. In other words, the quantity price merely enables the big buyer to make a larger profit; it adds to the competitive strength of the man with large capital and large trade, and to that extent works to the disadvantage of the small dealer.

Despite the slowly increasing number of manufacturers who do not offer quantity prices, and despite the arguments that support them, the tradition of quantity prices is still strong in trade, and the general opinion is that it will survive for a long time to come.

9. *Deals and secret discounts.*—Free deals are regular parts of some house policies; the buyer is given, say, a case of goods free, with each ten cases that he buys at the regular price. This is merely a method of temporary price reduction without changing the list price. Its advantage as a method of temporary price reduction is that it enables the price to be brought back to the original figure without much criticism from the trade; and it permits price reduction in a restricted territory without necessitating a new published list. Its disadvantages are that buyers often wait for the deals, and buy warily at regular prices; it often encourages buyers to load up unduly and so to be saddled with unproductive and slowly moving stock. A large proportion of trade organizations have officially protested against the practice.

Secret discounts, or inside prices to favored buyers, have been much criticized of late. The manufacturer who offers them is likely to incur the distrust of buyers at large, and it is possible that he will find himself in conflict with Federal trade laws. One price to all those who buy under the same conditions is coming to be the accepted idea in trade.

10. *Fixed prices.*—The manufacturer must decide whether he is to attempt to induce dealers to sell at

fixed prices, or whether he is willing that each dealer shall fix his individual price. This matter is considered in a later chapter.

11. *Guarantees.*—The manufacturer must also reach a definite decision with regard to guarantees and returned goods. Is he to stand absolutely behind his goods, and protect the dealer in a similar stand? Most manufacturers are adopting this policy because it is the honest, frank, above-board policy. In the working out of the policy there are many questions. For instance, shall the manufacturer issue a printed guarantee? If so, what shall be its terms? Shall it be absolute, or shall it be hedged around with qualifications and restrictions? Dealers and consumers are beginning to doubt the value of printed guarantees, because some of them have been so full of qualifications that, when goods, seemingly defective, are returned in good faith, it is found that the guarantee does not cover them. Rather than run the risk of losing consumer good-will in this way, many manufacturers think it best to issue no printed guarantee at all, but to advertise that they guarantee their goods, and to adjust each case on its merits, always dipping the scales in favor of the customer.

12. *Service.*—Finally, the manufacturer must decide the matter of service. Service is the big word in modern business. It means several things; for instance, a continuing interest in the customer after he has bought the goods; or a real helpfulness preceding the sale, with the purpose of fitting the goods

definitely to the customer's needs, or of helping him to decide whether the purchase is to his best interest or not. The automobile service stations are examples of this new idea in business; so also are the departments, conducted by periodicals, to help their advertisers get more return from their advertising expenditures. Another illustration is the service department of a furnace manufacturer, who will submit complete plans for furnace installation in any house without placing the inquirer under any obligation to purchase. Service of this kind is expensive, but it makes sales; no manufacturer can afford to omit service of some kind from his selling plans.

13. *Charting the cost of marketing.*—The campaign should be preceded by a carefully prepared budget of estimated receipts and expenditures. One complete budget of this sort included the following items: tabulation of complete expense balanced against returns from ninety per cent of proposed first year's output; detail of manufacturing expense; detail of sales organization expense; detail of advertising expense; detail of expected volume of sales with basis of estimation; detail of possible lesser and greater volume of sales, with accompanying sales of graduated expense and returns; detail of administrative financing of the proposition.

The manufacturer who is analyzing an established business can start with definite facts regarding present costs; he needs to estimate only the expected increase in business and the cost of obtaining it. The manufacturer entering the field, however, must deal entirely in estimates, except when he can learn the manufacturing and selling costs of a competing or similar line. These estimates are not easy to make, and yet they are possibly the most important single part of the whole plan for the campaign. Many a campaign has gone on the rocks because the costs of getting business were greater than any reasonable expectation of sales would warrant; because manufacturing costs had not been adequately studied before prices and profits were determined; because sufficient capital was not available to tide over an emergency; or because of some other failure to study the finances of the enterprise and to prepare properly for the future.

14. *Organization of salesmen and of advertising.*—After the manufacturer has decided what he is to do in order to sell his product, he must make detailed plans for putting his decision into effect. This means organizing his selling force if he is to use salesmen, and organizing the advertising if he is to use advertising. The former includes planning for the organization of the sales department, hiring the salesmen, training them, dividing the territory, fixing upon a method of compensation, preparing salesmen's reports, writing a sales manual, perfecting standard methods of presentation, arranging for samples, models, and demonstrations, selecting proper methods of keeping in touch with the salesmen, planning methods of inducing the men to do their best, and a hundred other de-

tails that are considered in the Text on "Salesmanship and Sales Management." Organizing the advertising includes similar items, discussed in the Texts on "Advertising Principles" and "Advertising Campaigns"—for example, choosing agency connections, organizing the advertising department, selecting the proper advertising appeal, choosing mediums, writing copy, obtaining illustrations, placing copy, checking returns, etc.

There should be a chronological schedule of factory production and delivery, a chronological schedule of sales organization work, a chronological schedule of all the kinds of advertising and follow-up that are to be used, and a chronological schedule of the aid to be given dealers if dealers are to be used in the marketing plan. The purpose of referring here to the myriad details of selling and advertising is to emphasize the necessity of giving them all careful consideration, and of definitely planning for everything to be done in the campaign before any of the machinery of the campaign is actually set in motion.

15. *Coordinating the salesmanship and advertising.*—Coincident with the organization of the salesmen and of the advertising should be plans for linking together all of the selling activities. Salesmen must often be taught how to use the advertising; sometimes their antagonism to it must be overcome; and always there must be definite plans for making personal salesmanship and advertising work together for the common end. This is best accomplished by proper

internal organization of the company, in which the men who plan and write the advertising are in the closest possible touch with the men who train and direct the salesmen.

16. *Getting distribution and cooperating with dealers.*—No attempt should be made to sell anything thru dealers unless careful analysis has shown that dealers will be receptive to it. Their receptivity is usually a matter of education, and the manufacturer must make careful plans to insure getting proper distribution of his product among the stores in which he wishes it to be sold. If these stores are carefully selected and if they reach a class of people among whom a demand for the product exists or can be created, dealers as a rule are glad to handle it. They demand only three things: real salability in the article, the opportunity to make a reasonable profit for themselves, and sensible cooperation from the manufacturer.

Few manufacturers try for any length of time to market an article that is not salable, but many of them neglect the profit of the dealer, or antagonize the trade by so-called dealer helps that are not really helps at all. The profit to the dealer must enable him to cover his costs of doing business and also to return to him something to pay him for the risk he runs by acting as distributor. Some manufacturers use the demand created by their advertising as a club to force dealers to handle their goods at a very small profit. This is an exceedingly expensive policy.

Most dealers have opportunity to influence sales, and it is certain that they will sell as little as possible of an article on which their profits, rate of turnover considered, are not satisfactory.

With respect to the advertising matter—samples, booklets, signs, window displays, electrotypes for advertisements, etc.—that is sent by manufacturers to dealers, there has of late years been a change of heart on the part of the most successful manufacturers. Tons of expensive advertising material have been wasted yearly by being sent to dealers who could not use it or who did not know how to use it. Nowadays these things are being done better. The dealer welcomes help from the manufacturer, but he wants advertising help that will advertise him and his store first and the manufacturer and his goods second.

The traditional "dealer helps" were designed solely to help the dealer to sell the goods of the manufacturer who furnished the helps. Store signs, display cases and electrotypes for newspaper advertising were in this class. A few manufacturers began with these things in order to help the dealer to link up with the national advertising of the manufacturer. The helps were effective as long as only a few manufacturers offered them. Before long the number of dealer helps increased so rapidly that no dealer could use more than a small proportion of them.

When this situation grew serious and dealers began to grow cold to the attempts of many competing manufacturers to help them sell their goods, a few manufacturers designed a new kind of dealer help—the kind which is designed, first, to make the dealer a better merchant, and secondarily to sell the manufacturer's goods. A garment manufacturer, for instance, provides the salespeople of its dealers with a complete correspondence course in salesmanship. A watch manufacturer gives to its dealers without charge complete directions for installing a cost-accounting system in a retail store. And a manufacturer of sad-irons gives away a brief but practical course in retail advertising.

Just now helps of this sort are in great demand. It is easy to see, however, that like the traditional form of dealer helps, they will lose much of their effect if they are taken up by a large number of manufacturers. The second manufacturing jeweler who offered a retail cost-accounting system to his dealers would not reap very great rewards. When the time comes when all of the old forms of dealer helps will have been overdone, manufacturers will have to tax their wits to develop some new methods of putting dealer good-will behind the selling of the manufacturers' goods.

17. *Sales record.*—Finally, the plan for the campaign should provide for complete records of everything that is done and of the results that are obtained. Plans should be laid for recording the exact cost of every phase of the salesmen's activities, every different form of advertising and even the cost of every individual advertisement or piece of advertising matter, the cost of sales and advertising administration, the

total marketing expense, subdivided in as great detail as may be desirable, the sales attributable to the different methods of sales stimulation, records of consumption of the product by individual buyers, by towns, salesmen's territories, states and other units, net profits from each form of selling effort in each subdivision of the market, comparative statements of costs and sales and profits for successive years, shown in whatever detail may be advisable, and, in short, every kind of record that may enable the manager of the business to know exactly where the business stands, what is being done to stimulate it, the cost of the stimulation and the results obtained. Without careful preparation for records of this sort, the business cannot be conducted on the basis of known facts, and it will be seriously handicapped in its future development.

SUMMARY OF STEPS IN THE CAMPAIGN

Study of the product.
Study of the market.
Selection of trade channels.
Fixing the price.
Shall salesmen or advertising be used?
Sales policies.
  Credit.
  Quantity prices.
  Special prices.
  Price maintenance.
  Guarantees.
  Service.

- Charting the cost of marketing.
  - Complete budget of estimated expenditures, sales and profits.
- Organization of salesmen and of advertising.
  - Definite schedules of all forms of selling activity.
- Coordinating the salesmanship and advertising.
- Getting distribution and cooperating with dealers.
- Plan for detailed records of actual expenditure, sales and profits.

REVIEW

What things are mentioned in the Text as factors in determining a manufacturer's prices? In your business how are prices determined? Do any new factors enter in? Does a study of the Text suggest any change in your scale of prices?

What is included in the phrase "sales policies"? Have all these things been sufficiently considered in the business with which you are connected?

What items would you include if you were to chart the cost of marketing in advance of a sales campaign?

What must precede the actual personal salesmanship and advertising in a sales campaign?

What is meant by "getting distribution"? How is it accomplished?

CHAPTER XIX

PROTECTING THE MANUFACTURER'S GOOD-WILL

1. *Good-will and price maintenance.*—By making a good product, by advertising, and by a long period of fair dealing with his customers the manufacturer gradually attracts to his goods and to his business a certain amount of popular interest and approval. This good-will is often the manufacturer's or dealer's most valuable asset, and the protection of good-will, acquired slowly and expensively, is one of the most important problems in marketing. Many manufacturers believe that this problem is largely one of price maintenance.

2. *What is price maintenance?*—Price maintenance is a policy adopted by a manufacturer who sells thru middlemen, whereby the manufacturer seeks to limit or to fix the price at which the middlemen shall sell his goods. The attempt may be made to control the resale price of jobbers or of retailers or both; the price may be definitely fixed, or the control may consist in the establishment of maximum or minimum limits. Price maintenance vitally concerns not only the manufacturer, but also all classes of jobbers and retailers, and, most of all, the consuming public.

3. *How price maintenance developed.*—Price main-

tenance is indirectly the outgrowth of large scale production and of national advertising. The former has greatly stimulated competition. Increased competition has constantly forced manufacturers to seek new ways of insuring sales and profits. National advertising was one of the things seized upon as a valuable aid in competitive marketing. Its rise dates from about the year 1870. Before that time there had been some national periodicals and some national advertising but without any marked influence on marketing methods. With the development of magazines and newspapers, however, manufacturers, pressed for a market, began to realize the possibilities of appealing directly to consumers by giving their goods individuality and by publishing broadcast the merits of the product. This had the result of familiarizing consumers with the quality and prices of certain brands and of creating a marked demand for well advertised articles.

Retailers were quick to take advantage of this situation. Price cutting is nothing new. Ever since there has been any merchandising, some dealers have tried to attract trade by offering well-known articles at less than market prices. National advertising increased this practice. If an article is widely advertised, universally known and in constant demand, some retailers believe it good policy to offer it occasionally or regularly at an unusually low price. They have two purposes: one to get people into the store by the lure of a well-known article at a low price, and then to try to sell them, in addition, other articles at regular prices; the other, to create the impression of a general low level of prices on all the goods in the store.

4. *Three kinds of price cutting.*—Dealers who engage in price cutting are of three kinds: First, there are those who cut only on standard, well-known goods, for one of the purposes just enumerated. The cuts may be temporary or permanent, but in either case they apply only to advertised goods—other goods in stock are sold at regular prices. Most price-cutting dealers are in this class. There are other cut-price dealers, however, who do not single out advertised and well-known brands; they sell all their goods all the time at below normal prices. These dealers contend that unusual buying advantages and methods of operation permit them to offer goods to the consumer at lower prices than those charged by their competitors. The third class of cut-price dealers cut on all goods, but they do not do it all the time. To close out at the end of a season they may lower all their prices temporarily, or they may run cut-price sales on their entire stock on other occasions.

Most manufacturers do not object to reasonable cut prices in bona fide clearance sales. But the other forms of price cutting are generally disapproved by advertising manufacturers, even tho the ethical aspects of the two different practices are widely dissimilar. In the following discussion the first price-cutting method is chiefly considered because it is the most common, but the general principles apply usually to the first and second kind alike, and also to the third when it is abused.

5. *Price cutting and the manufacturer.*—The manufacturer whose goods have little or no consumer good-will does not suffer from price cutting. In this class are those who manufacture bulk goods without brand names; those who manufacture goods to be sold under the private brands of retailers and jobbers; and those who may brand their own goods but who do not experience a general consumer demand for their products, either by reason of limited distribution or by reason of little or no effort to make the brand name known to, or demanded by, the consuming public. It should be definitely understood that, as far as the manufacturer is concerned, price cutting becomes a serious matter only when it involves goods that have real consumer good-will—a good-will that has been built up slowly and expensively by the manufacturer and his cooperating dealers. The word manufacturer in this discussion is arbitrarily applied to makers of goods of this sort only.

6. *What happens when prices are cut.*—Price cutting on standard goods is said to result immediately in some loss of consumer good-will. Accustomed to a higher price, consumers think they have heretofore paid too much, and they are inclined to believe that at the regular prices both manufacturer and dealer must be making too much profit. If one dealer offers the cut price often, customers will wait for it and will

buy only then, and competitors who hold the price will lose trade to the price cutter.

If the price cutting keeps up, several different things may happen. (1) Other dealers may be forced to meet the cut. The first dealer, in order to hold his advantage, may then cut still lower. His competitors meet the cut; and the price war may go on until the profit has been entirely cut out of the goods and they have been thrown out of the dealers' stocks. (2) In the majority of cases, perhaps, the price war does not continue until the profit has entirely disappeared; it merely lowers the general price level in the community to such an extent that the dealers no longer make a fair profit on the sales of the article in question. As a result they are unwilling to push its sale; it is still carried, but it is sold only when customers specifically demand it, and whenever possible, the dealer substitutes for it some competing article that carries a greater profit. Needless to say, this seriously injures the manufacturer. He loses the good-will of dealers, and his consumer good-will is greatly lessened by the antagonistic attitude of retailers. The sugar market illustrates this condition. Sugar has been so universally used as a cut price leader that there is very little profit left in it for either jobber or retailer; in fact some jobbers have even offered bonuses to those salesmen who would sell the *least* amount of sugar. (3) There may be no price war when one dealer starts cutting on a standard article. The others, unwilling to lose their profit, may simply cease pushing the article. Probably this is what happens in most cases, because dealers generally do not do enough business to enable them to cut largely on one article with the purpose of making up the loss on other sales. No dealer likes to have a customer say or imply: "You are robbing me. I can get the same thing down the street for seven cents less." Accordingly the innocent manufacturer loses in behalf of his goods a large part of the dealer activity which, without price cutting, he might be able to enlist.

7. *Is the manufacturer really hurt?*—Advocates of the dealer's right to cut prices sometimes deny that price cutting starts price wars that are disastrous to the manufacturer. They deny that cutting by one dealer decreases the manufacturer's sales in a community. Their contention is that the price cutter is usually a large, successful store, and that the cut prices on Arrow Collars, for example, will build up increased sales in the community, even tho the non-price cutting dealer refuses longer to handle the goods. This is a question of fact. In some cases possibly the manufacturer does not lose. In an overwhelming proportion of cases, however, he loses. Suppose there are ten dealers in a town handling Arrow Collars. One cuts prices. He is the largest dealer. His own sales of Arrow Collars increase, but the sales of the other dealers fall off greatly. The increased sales of one dealer do not compensate for this decrease, and total sales diminish. The Ingersoll watch com-

pany has collected interesting statistics showing actual falling off of sales in communities when one dealer has cut prices. Despite occasional instances to the contrary, the injury to the average manufacturer of standard articles on which prices are cut is generally conceded.

8. *What has the manufacturer done about it?*—Some manufacturers have done nothing to maintain their resale prices. They say they are not interested. The manufacturer with a semi-monopoly believes that people must buy his goods, and dealers must handle them irrespective of the penalty of decreasing profits which the retailer brings upon himself by price cutting. Again, a few national advertisers have created such demand by advertising and quality that they believe they can force dealers to handle their goods no matter whether dealers make a profit or not. There are, fortunately, few manufacturers in this class. The method of selling goods by clubbing the dealers into line with advertising is in disrepute. It is neither pleasant nor ordinarily profitable to try to force a dealer to do something that he does not want to do.

9. *Three methods of maintaining prices.*—The manufacturer who wanted to maintain prices has, in the past, done one of three things: (1) Some manufacturers utilized the right which they believed to be given them as patentees to have the sole right to vend their goods, and have insisted on a maintained resale price as part of their patent right. Few did

this, because most goods are not patented. (2) The second method of maintaining resale prices was for the manufacturer and dealer to enter into a contract or agreement whereby both agreed, for mutual consideration, that the price was to be a certain minimum, between certain limits, or a fixed figure. This was a pure contract arrangement, entered into without coercion on the part of either. (3) The third method of controlling the resale price was the "gentlemen's agreement." There was no formal contract—simply an understanding between manufacturer and dealer to the effect that, for the good of both, prices were not to be cut.

The second of these methods is the one usually favored by the advocates of price maintenance. The first method, even if legal, could obviously be but infrequently used; while the third, altho effective enough if the agreement is lived up to, gives the manufacturer no desirable means of holding the dealer to the agreement. Accordingly, the permission to contract freely with dealers to maintain prices—the contract, like any other similar instrument, to be the basis of a suit for damages when broken—is what most friends of price maintenance desire.

The enemies of price maintenance sometimes say that this permission is unnecessary. If a dealer cuts a price, the manufacturer may simply refuse to deal with him any longer. It is true that the manufacturer probably has a constitutional right to sell his goods or to refuse to sell them to anybody and if he has any reason that seems good to him, altho there have been many unsuccessful attempts to deprive him of this right when his reason for refusing to sell was the price-cutting activity of a dealer. Nevertheless, the average manufacturer of standard goods is not satisfied with this right. He does not want to cut off dealers, because that would reduce distribution. He believes that if he is permitted the formality of a contract with dealers, he will be able to retain their cooperation and at the same time maintain his standard prices without getting into constant difficulty with his distributors.

10. *Scope of the discussion.*—It is not our purpose to relate the history of court decisions or legislation dealing with price maintenance. There have been many decisions and much legislation. The status of price maintenance is changing so rapidly that no statement about its legality would be certainly applicable the day after it was made. Our purpose is not to discuss any particular piece of legislation, but to present the general principles actuating both the friends and the enemies of controlled resale prices. The question will be settled only when the business interests of the country have carefully considered it in all its aspects and have shown a preponderance of carefully weighed opinion on one side or the other. Whether the manufacturer should or should not have the right to contract with dealers to maintain prices if he wants to and if he can find the dealers who believe as he does, is a fundamental problem in marketing.

11. *Price maintenance not new.*—It is important to remember that the principle of price maintenance is nothing new. For many years before the first adverse court decisions (about 1908) many manufacturers carried on their business by means of agreements with dealers to maintain prices. No one seemed to question the propriety of these agreements when they were made without coercion from either side. Accordingly, we do not need to speculate as to what would happen under a system of legitimatized price maintenance. We know from past experience. The principle would be used only by a small minority of those manufacturers who have created for their goods, by branding them and by publicity, a considerable amount of consumer good-will. All retail prices were not fixed by manufacturers in the past and will not be in the future. Price maintenance is a principle that has been and will be used only by the exceptional manufacturer in his dealings with the trade.

12. *Does price maintenance interfere with rights of private property?*—It may be conceded that indiscriminate price cutting on standard, well-known goods is often injurious to the manufacturers of those goods, and, conversely, that the opportunity to control resale prices, by agreement with dealers or otherwise, would be advantageous to many of these manufacturers. If manufacturers are to be denied the right to control resale prices, it must be shown that the injury done to others by the operation of the

principle of price maintenance is greater than the good derived from it by manufacturers.

Some contend that when a dealer buys goods he may do with them as he pleases. The attempt to dictate what he shall do with things that he owns is said to be an unwarranted intrusion on his private affairs. This argument is answered in two ways. The manufacturer first, may say: "The retailer is not selling his own goods in his own way. He is selling on the strength of my name, my advertising, my guarantee, my reputation, which are back of the article. Surely I have a moral right to fix the terms upon which it shall go to the public. If he were selling the same article simply on the strength of his own name and advertising, the manufacturer would not care at what price he sold; but when he makes use of the name, trade-mark and reputation of the maker to effect the sale, it is idle to say the manufacturer has no interest to be protected."

It does not follow, others say, that even if the article sold is the sole property of the merchant, he may do with it whatever he pleases. There may be a public interest to be protected. There are many things a man owns which must be used, not solely as he wishes, but as the public interest dictates. If it is for the public good that the manufacturer be permitted to name the resale price, the public interest must outweigh the selfish interest of the dealer.

13. *Does price maintenance mean high prices?*—The charge is made that the only purpose of fixing

prices is to fix a high price, but this has not been proved. Manufacturers who wish to control resale prices want only to maintain a fair price that will insure profits to dealers, keep their continual good-will, and build up consumer confidence in the goods. Moreover, the fixed prices must be fixed in the face of competition; they cannot be too high or the public will not buy.

Lists of standard articles with their prices have been prepared at various times, showing in one column articles on which an attempt is made to maintain prices, and in the other column competing articles on which dealers make their own prices. The general level of prices in both columns is usually about the same.

14. *Are fixed prices unfair to dealers?*—Another argument of those who do not believe in price maintenance applies not to the dealer who uses cut-price leaders to get people into his store, but to the merchant who claims such unusual buying connections and such unusual efficiency in operation that he can always sell all of his goods below the normal prices in his community. Assume that on a nationally advertised umbrella the manufacturer asks dealers to maintain a uniform price of one dollar. At this price it returns a gross profit of twenty-five per cent of the selling price to the retailer. Assume also that in the usual store the average expense of doing business is eighteen per cent of sales. The average dealer would make a seven-cent net profit on the sale of the

dollar umbrella. Suppose, however, that there is one dealer in town who has cut his average cost of doing business to twelve per cent. If he, too, were to sell the umbrella at one dollar, his net profit would be thirteen cents, as compared with the seven-cent profit of his competitors. It is contended that it is not fair to this dealer to force him to sell at the same price as his competitors; he should be granted the competitive advantage of offering the lower price which his efficiency makes possible.

This is one of the strongest arguments for the opponents of price maintenance. There are, however, very few dealers who have any marked advantage in selling costs. If it is admitted, for the sake of argument, that they can cut on standard goods profitably, this advantage to a few dealers must be weighed against the injury done to many manufacturers by the price wars that may be started and by the antagonism of the other dealers who cannot meet the cuts of the few.

It may also be noted that the margin on standard goods is usually comparatively small—indeed, is made so just to prevent the dealer from giving away his profit. When a dealer makes a marked cut he often makes no profit at all on the standard goods. He takes a loss on them, with the expectation of making it up on his own private brands or bulk goods, on which there is usually a big margin despite the seemingly low price. This contention of the friends of fixed prices is not always pertinent. That it suggests the actual situation in many cases, however, is indicated by the fact that many cut-price dealers, even when offering all goods continually at low prices, try to switch the demand for standard goods to articles bearing their own private brand.

Finally, it is maintained that the dealer who wants to cut continually can find plenty of goods to cut on without injuring the business of a national advertiser. If he must cut on everything he handles, let him cease handling standard goods on which the manufacturer wants to maintain the price. There always have been and always will be many manufacturers who do not advertise their goods and who have no interest in maintaining standard prices. If the cut-price retailer answers this argument by saying that his customers demand standard goods, and that he must carry them, the dealer confesses that he cannot make his store successful without standard goods in stock; and standard goods are standard only because the manufacturer, by maintaining a uniform quality and a uniform price, has created public confidence in them.

15. *Are fixed prices unfair to the public?*—The most serious charge of the opponents of price maintenance is that it is unfair to the public. The simple fact is that when price cutting is permitted, the patrons of the cut-price stores are often able to buy a twenty-five-cent stick of some standard, nationally advertised shaving soap, for instance, for nineteen cents. If the manufacturer wanted to maintain the

twenty-five-cent price, and if he were permitted to enter into agreements with dealers to that effect, the consumer would have to pay more for the goods.

In answer to this statement of an unquestioned fact, it is contended that often the consumer really gains nothing from the cut price on standard goods, because the loss or decreased profit on them is frequently made up on other less known goods. More pertinent, however, is the argument that continued and unrestricted price cutting may eventually lead to monopolized retailing (this is to be discussed in the next chapter); that it may discourage many manufacturers from improving products and putting them on the market; and that it is likely to result in the breaking down of the present system of identified merchandise purchases, which are the characteristic features of modern marketing.

REVIEW

Chapters XIX and XX are to be studied together. Review suggestions for both will be found at the end of Chapter XX.

CHAPTER XX

THE CASE FOR PRICE MAINTENANCE

1. *Other arguments in opposition.*—In the preceding chapter those arguments have been presented which seem to be the strongest that the opponents of price maintenance have offered. To each of them, as has been shown, there is a counter-argument offered by those who believe that the manufacturer, when he cares to do so, should be permitted to control the resale prices of his goods. The reader is to judge for himself the relative weight of these arguments and counter-arguments. In the present chapter those arguments are presented which are usually considered the strongest that can be offered by the friends of price maintenance. In this chapter, as in the preceding one, the method used is first to state some criticism frequently voiced by those who oppose the principle of controlled resale prices, and then to show how the criticism is met by the other side. The arguments on the two sides are not the author's. He has collected them from all that has been written and said on the subject, and he does not necessarily stand sponsor for any of the contentions on either side of the controversy.

2. *Are fixed prices to be considered similar to con-*

spiracy prices?—Prices fixed by the manufacturer, it is said, are no different from conspiracy prices. The argument is: If a manufacturer says that his shoes shall be sold for no less than five dollars by all the retailers in Denver who handle them, the result is that all wearers of those shoes in Denver must pay five dollars for them. So far as the consumer is concerned, the result is no different from what it would be if all the sellers of those shoes met, discussed the situation, and unanimously agreed that no one should sell the shoes for less than five dollars. The latter would be a conspiracy price, and would be against public policy. Why is not the price fixed by the manufacturer also against public policy?

In the case cited, the immediate effect of these two practices on the consumer is the same. But the similarity stops there. The two practices are wholly different in principle and in final results. If the retailers may get together to fix a price on one article, they must be permitted to fix it on all articles; and if dealers are permitted to conspire to maintain a price, the same privilege must be extended to competing manufacturers. If the legality of conspiracy prices is recognized, we have legalized opportunity for restriction of all price competition and for the development of complete monopoly thru voluntary combinations in all fields. No such results can come from price maintenance; it has nothing in it that encourages monopoly. The price fixing is not done by the cooperation of competing units; it is done by a single manufacturer, who, operating in a competitive field, must fix a price that will sell his goods in competition with many other similar articles.

The Honorable Louis D. Brandeis, now Associate Justice of the Supreme Court of the United States, said in the December, 1913, issue of *Associated Advertising,* that it was regrettable there was

> "confusion of price maintenance by independent manufacturers with price fixing by monopolies. People know that the Standard Oil Company fixed prices; that the Steel Trust fixed prices; that the Tobacco Trust fixed prices; that the Sugar Trust fixed prices. It was natural to conclude that anything that fixed prices was therefore objectionable, and against the public interests. An atmosphere was thus created which permeated the courts and which led them to stamp as illegal anything in which the attempt was made to protect the price. The distinction is, of course, perfectly clear. On the one hand you have a combination of individuals forming a capitalistic monopoly and using their power to fix the price of a standard article. On the other hand you have an individual concern in a competitive line of business undertaking to preserve his own creation—that which he has contributed to the world—and has marketed in a manner which he believes is essential to secure fair and adequate distribution. . . . He who sets the price, fixes it knowing that if it is too high either one of two things happens: either people will not buy largely, or if they do buy, and if his profits are large, new competitors will come in and share his market.

In other words, the maintained price must be a fair one or the manufacturer will lose business.

3. *Is price maintenance unreasonable restraint of trade?*—Price maintenance is said to be in unreasonable restraint of trade because it tends to restrict

competitive activities of merchants, discourages competition and retards development of merchandising generally. The basic assumption behind this contention is that unrestricted price competition is always of benefit to the public, and that trade is always fostered by it.

The assumption is wrong. Unrestricted price competition is often bad for the public. Many of the so-called trusts were built up largely by putting a competitor out of business thru selling below cost in his town, and making up this loss by higher prices in other communities. The absolute independence of each dealer is a fiction. Unrestricted price competition has proved a failure in encouraging competition; it has fostered trusts and monopolies.

It should be remembered always that price maintenance does not forbid all price competition; it forbids only a small part of it, because only a comparatively few manufacturers have had in the past, or will have in the future, any interest in controlling their resale prices. As long as the law keeps those manufacturers from conspiring to maintain a uniform price on competing goods, there can be no danger to the consumer.

4. *Does price maintenance encourage monopoly?*—The foes of fixed prices assume a relation between price maintenance and monopoly. This argument is similar to those that have gone before. The general charge that prices controlled by the manufacturer are similar to conspiracy prices, that they con-

stitute unreasonable restraint of trade, and that they are therefore likely to lead to monopoly, is that which is most often heard in the price maintenance controversy. Specifically it is charged that the manufacturer who is permitted to control resale prices is thereby given a form of monopoly. He dictates to distributors all down the line, and makes it impossible for consumers to get his goods except at his arbitrary price. Similar to this is the rather vague charge that price maintenance is for the big and strong, that it is in their favor, and that it is dangerous to the small man in business and is likely to weaken his position.

With respect to patented goods the first contention is more or less true. The man with a patent has a legally recognized monopoly. No one else can make his goods. He can make his price to dealers as high as he wants to, taking into consideration, of course, the relation between price and volume of sales. Whether or not he is granted the right to control the resale price, it is admitted that his is largely a monopoly price, and must continue to be so from the nature of the case. The law recognizes this form of monopoly and encourages it.

Most manufactured articles are not patented, or if patented, are in close competition with other goods differing only slightly from them. In the case of such articles there is not the slightest element of monopoly in price maintenance; nor is the manufacturer's fixed resale price either an arbitrary or a monopoly price—it is fixed strictly by competition.

Suppose that all the manufacturers of flour in the United States and Canada should form a combination for the purpose of fixing a uniform price on flour; that would be a real monopoly, and dangerous in principle and practice. The combined manufacturers could, if they wanted to, raise the price of flour to the highest possible point which would not result in a falling off in consumption. People would have to pay the price or go without flour.

How does this situation differ from the situation under price maintenance? It differs fundamentally. Under price maintenance there is no combination among manufacturers. They are still kept apart by law. In price maintenance we are concerned only with the individual manufacturer. He decides that it will be good for his business and for his distributors to have all the people who sell his flour sell it at the same price. Is such a price an arbitrary or monopoly price? Far from it. It is fixed strictly by competition. Consumers do not have to buy the flour of the one manufacturer, or go without flour entirely. If the price he fixes is too high, they can buy from any one of a thousand competing flour manufacturers. The individual manufacturer's price, therefore, is not fixed by monopoly considerations. There is no danger of its being extortionate. It must stand competition in the open market—it must be in harmony with the principles of competition and of business ethics.

5. *Weakness of the monopoly charge.*—The lack

of basis for the common charge that price maintenance and monopoly are inherently related—that price maintenance *per se* gives a manufacturer a monopoly—is indicated by a concrete case. John Doe manufactures flour in a small way. His output is small, and he sells it all by putting it on a wagon and driving around from house to house. Of course he may charge any price that will sell the flour; no one questions his right to do so.

Later he expands his business. He makes more flour than he can sell himself, and hires men to help him. Each one of his assistants loads flour onto a wagon and travels a prescribed route for the purpose of selling it to consumers. Mr. Doe does not want one of his salesmen selling the flour at $1.40 and another selling it at $1.60. If this were done, a woman who paid the higher price might hear of the lower; she would resent what she might think was the attempt to cheat her, and she would probably be lost as a future customer. Therefore, Mr. Doe calls his salesmen together and says to them: "The price of this flour is $1.50 a sack. I want you to get that—no more and no less." And they would have to get it on pain of losing their positions. No one can question Mr. Doe's right to fix this price and to make his salesmen get it.

The business keeps on expanding. Selling flour from house to house by means of salesmen becomes cumbersome and expensive. John Doe finds an increasing demand for his product. Women who have bought it once, like it, and ask their grocers for it. The grocers go to Doe and ask him to sell them his flour. He says: "All right. I will give you a fair dealer's discount, but I don't want my trade demoralized by a different price being charged for the flour in every store in town. I want you to sell at a uniform price of $1.50." The dealers agree, and the flour is sold on this basis. Is this monopoly? Is this restraint of trade? Is this a conspiracy price and injustice to the public? The opponents of price maintenance say it is. Its friends say it is not; they maintain that the third method of selling is no different in principle from the first two, and that, if a manufacturer has the right to name the price at which consumers shall get his product when he sells direct, he should have the same right when he sells thru an intermediary. If he is granted the right in this latter case, he certainly is being given no privilege which has the most remote connection with monopoly, either present or future.

6. *Does price maintenance discourage retail competition?*—Price maintenance is said to be in restraint of trade because it tends to discourage competition among retailers. The people who make this charge say that fixed prices tend to build up merchandising monopolies—that they result in the increased development of large business units and in the decreased prosperity of the smaller units. The purpose of the opposition to price maintenance is ostensibly to limit the concentration in merchandising and to restore com-

petitive opportunities for the man with small capital.

As a matter of fact, unrestricted price competition is said to defeat this very purpose. This, it is maintained, has been proved in the development of trusts and industrial combinations. Furthermore, it should be remembered that a substantial cut on standard goods means going close to, or below, the profit line. Who can afford for long to sell any one line of goods at little or no profit? The man with much capital or the man with little? The friends of price maintenance say that it is only the large, well-capitalized retail store that can use the price-cutting weapon. They point out that cut prices on standard goods, offered for advertising purposes, are used chiefly by chain stores, department stores and mail-order houses—the three types of organizations that approach most nearly to the idea of monopoly in merchandising. If they are permitted to use the price-cutting weapon—if they are permitted to continue to attract trade by offering prices on standard goods that are often below the profit line, then they will continue to increase in size; and their small competitors who do not or who cannot meet their prices, will decrease in number and in importance. On the other hand, if prices on standard goods are maintained, the man with small capital is in exactly as strong a competitive position as the man with large capital. Competition then becomes a matter of service, in which the small dealer is on just as secure a footing as the large dealer.

It is in this way that the friends of fixed prices answer the charge that they are seeking to benefit big business at the expense of small business. They maintain that, on the contrary, cut prices will build up merchandising monopoly; while price maintenance will destroy one of the strong and exclusive competitive weapons of the largely capitalized retail organization.

7. *Summary of arguments for price maintenance.*—It has been shown that many manufacturers of nationally advertised goods and of other lines in large demand, believe that their business is seriously hurt by indiscriminate price cutting. It has been also shown that the friends of price maintenance believe that if the price-cutting weapon on standard goods is taken away from retailers, it will encourage retail competition by making success more possible for the small dealer who finds himself in competition with large merchandising organizations. These arguments, together with some additional ones, are summarized in the following manner by those who believe that if a manufacturer wants to maintain resale prices and if he can find retailers who are willing to work with him to that end, he should be permitted to enter into a contract which, if broken, would serve as the basis of a suit for damages.

8. *Interest of the consumer.*—The comparatively small number of customers of cut-price stores would, under price maintenance, lose the difference between standard and cut prices on standard goods. Others would lose nothing, and would be protected

in their purchases of identified merchandise. All consumers would retain the advantages resulting from buying identified merchandise guaranteed by the manufacturer, advantages which might be lost if the manufacturers were to suffer continually the losses due to price cutting. And, finally, consumers would be protected against the possibility of monopolistic retailing which is said to be fostered by the use of the cut-price competitive weapon.

9. *Large retailer's interest.*—It is usually the large retailer who employs cut prices on standard goods for advertising purposes. He does not maintain that the maintenance of resale prices would bring him any direct loss. He contends merely that he would be deprived of the advertising value of these cut prices. By price cutting he is able to take advantage of the producer's reputation and obligations, and thus give to his customers an extra price inducement to trade with him rather than with his small competitors. Under price maintenance he would lose this privilege. He would gain, as all retailers and consumers would gain, from the assurance of the continuance of the system of standard goods, identified and guaranteed by the manufacturer, and advertised by him to the consumer.

10. *Small retailer's interest.*—The small retailer is, next to the manufacturer, the chief sufferer from price cutting on standard goods. He loses trade to large competitors, and in some lines the ultimate result of continued price cutting is to force small re-

tailers out of business as independent concerns. Under price maintenance the small retailer ordinarily loses nothing, and in many lines is able to save his profits and to stay in business. It is not to be understood that price cutting by competitors is the only thing threatening the existence of the small dealer. It is simply one of the many things he has to contend with.

11. *Jobber's interest.*—Jobbers are often given to price cutting, as well as retailers. Price cutting is said to injure the jobber, because it drives manufacturers into direct selling to retailers. Many manufacturers sell direct, not only to avoid the loss of retailer good-will occasioned by the jobbers' varying prices, but also to keep close enough to retailers to show them the advantages of maintaining prices. Direct selling by manufacturers, of course, is a severe blow to the jobbing system. In addition, the jobbers' price cutting reduces the jobbers' profits, which, at best, are not extravagant. Finally, a continuance of price cutting by large retailers, as has been shown, is likely to lead to merchandising monopoly—it is likely to decrease the size and profit of the small dealers' sales—and ultimately to put many small dealers out of business. As the relatively small retailers are the ones who need and support the jobber, their disappearance or decreasing business would immediately affect the business of jobbers. These things can be avoided partly by permitting the maintenance of standardized resale prices on those kinds of standard goods

which are almost exclusively the subject of cut prices for advertising purposes.

12. *Manufacturer's interest.*—Under price cutting, it is maintained that the property value of the manufacturer's good-will is impaired, and in many cases his business is likely to be greatly injured, by the destruction of his own profits and the profits of his distributive organization. As a result, the inducement to producers as a class to devise new products is likely to be materially weakened. A reasonable system of price maintenance, on the other hand, serves to stabilize the market, protects the profits of distributors, and conserves the good-will of consumers, retailers and jobbers for the manufacturer's goods.

13. *Nature of the price maintenance agreement.*—Nobody contends that manufacturers should be forced to maintain prices. Many manufacturers prefer to do business without price restrictions. Many others, however, who have created large consumer demand, believe that price cutting hurts them. Similarly, nobody contends that dealers should be forced to handle price maintained goods. Some do not want to do so; certainly they must continue to do business as they please. But there are many other dealers who believe that they are helped by keeping standard prices on standard goods. The friends of price maintenance contend that when a manufacturer wants his prices maintained, and when he can find dealers who agree with him, they should be permitted, with suitable restrictions, to enter into a formal agree-

ment without danger of prosecution, and with the assurance that the market will not be demoralized by the breaking of the agreement after it is made.

REVIEW

After studying chapters XIX and XX carefully, decide whether you approve or oppose the principle of permitting the manufacturer to maintain his resale prices if he wants to do so. Remember that the principle is distinct from any particular method of applying it. Whichever way you decide, be sure that you can answer the arguments on the other side.

If you were a manufacturer, would you want your resale prices maintained?

If you were a retailer, would you be willing to handle goods on which prices were maintained?

CHAPTER XXI

THE COST OF COMPETITIVE SELLING

1. *Criticism of marketing methods.*—The cost of marketing is attracting the increasing attention of press and public. Recent years have seen large advances in the cost of staples and luxuries alike. In the desire to head off further advances and to find the reason for past increases, many people have come to regard the present marketing system as the most blameworthy single factor. The criticism is general that high prices are due to advertising; that the enormous wastes of publicity are responsible for many of our difficulties; that there are too many salesmen, too many middlemen, too many appeals to the public, and too much buying; that the world is living beyond its means and that this or that phase of marketing is chiefly to blame. We may look into some of these charges in so far as they have reference to manufactured products.

The charges against the present marketing system are of two kinds. One has to do with the multiplicity of competitive appeals of all kinds, the effect of such appeals on prices generally, and their effect on extravagant living and general economic conditions. The other charge is that any kind of intensive selling, whether carried on by advertising or salesmen, must necessarily increase to the consumer the price charged for the article so sold. Let us consider this latter charge first.

The criticism assumes many forms but it is most frequently directed against advertising. Accordingly we may accept advertising as a type of intensive selling, and discuss the charge against it, with the understanding that what is said of it could with equal validity be said also of any other method of selling. In principle, the telling of a sales story to 10,000 people at a time by means of a printed advertisement is no different from the telling of it to each possible buyer in turn, either over the counter of a retail store or by a salesman calling on the prospective buyer. The effect of intensive selling on the selling price of an article must be the same no matter what method of intensive selling is used.

2. *Who pays for the advertising?*—The question is frequently asked: "Who pays for the advertising?" with the implication that the answer will disclose the cause of high prices. Those who ask the question are prompted to do so by the thought that the advertiser passes on his advertising expense to the consumer, who pays it in the form of higher prices. Is this true? If it is, it is a serious indictment against advertising.

3. *Advertising and the retail store.*—In the larger cities at least, the successful retail store spends huge sums for publicity; it uses large space in expensive

newspapers; it spends a fortune, perhaps, on the decoration of its Christmas windows; it provides all sorts of conveniences for its patrons, all of which are charged to advertising. Do customers pay more in consequence for their purchases than they would if the store did no advertising? All these marketing activities have but one purpose—to make more sales. Increased sales mean more rapid return on the investment, without a proportionate increase of capital. This means that the capital can be used more frequently. A man with a capital of $10,000 may without advertising make sales of $25,000 a year. If he spends a few hundred dollars in advertising his sales may amount to $40,000. He increases his turnover from two and one-half to four times. When he does this, he can afford to take a smaller profit on each dollar's worth of goods sold. This is one saving that he can pass on to the public.

Another saving is in expense. Every article sold must bear a certain charge for the expenses of running the store—rent, labor, administration, etc. Some of these expenses remain the same regardless of considerable increases in the amount of sales; some of them increase with the sales, but not proportionately—advertising is such an expense. With the increased sales caused by good advertising, each dollar taken bears a decreased proportion of the total expense of doing business. This is a second saving that can be passed on to the public in the form of lower prices.

Another opportunity for saving is in the cost of the goods to the dealer. Quantity purchases often mean extra discounts. The merchant who, thru advertising, is able to run up his sales, is in a position thereby to buy in larger quantities, to command lower prices, and to pass on this saving to his customers.

Ineffective retail advertising is of value to no one. The store that gets no satisfactory returns from its advertising expenditure soon ceases to advertise or ceases to exist. Good retail advertising certainly does not increase the cost of goods to the public. Very few stores have ever raised their prices after they began to advertise, while there are countless cases of prices going down as the result of advertising. The buying public does not look for bargains in the quiet, non-advertising store, but in the big, busy, thoroly advertised retail establishment. Because of this fact store advertising cannot be charged with creating high prices.

4. *Advertising and the manufacturer.*—The manufacturer's advertising is that which is usually attacked. The public sees hundreds of magazines carrying numerous pages of advertising; it sees billboards and street-car cards everywhere; it cannot escape the marvelous electric signs that illuminate every Broadway in the country; it learns that one back cover in colors on a popular periodical costs $10,000; and it jumps to the conclusion that here indeed is something tangible, something that must be charged with the high cost of living.

5. *Reduction of manufacturing costs.*—As in the case of retail advertising, we must differentiate between good and bad national advertising. Bad advertising is wholly a loss. The advertiser learns his lesson, takes his loss and gradually recoups by better methods, or he ceases to do business. The manufacturer is the loser, not his customers. Good national advertising, on the other hand, tends to keep prices down. It results in increased sales, and increased sales often make it possible for the manufacturer to effect the ordinary economies of large scale production, lowered costs by reason of increased purchases of raw material, better methods made possible by the employment of high salaried experts, complete division of labor with resulting increased efficiency, and the use of labor-saving machinery which is only profitable when the output is large. All of these and other savings may result in lower cost of the finished product.

6. *Reduction of selling costs.*—This is not, however, the most important effect of advertising. Sometimes the increased sales thru advertising do not decrease materially the cost of manufacture per unit, and sometimes there is a limit in production beyond which additional economies in manufacturing are impossible. Even in such cases advertising means a saving, for tho good advertising *may* not reduce the unit cost to manufacture, it *always* reduces the unit cost to sell.

The cost to sell is a big item in the price at which an article is sold. Every article must bear a proportion of this cost. If the total selling expense is high and the sales small, the price must be fixed accordingly; but if thru an expenditure for advertising the sales can be greatly increased, the proportion between selling expenses and sales may be so changed that the price can be brought down. Suppose, without advertising, a manufacturer can sell 10,000 units of his product at a selling cost of $5,000. Each article sold must bear a selling cost of fifty cents. Suppose, now, he adds an expense of $2,500 for advertising, and as a result sells 20,000 units. His total selling cost is increased to $7,500, but the *unit selling cost* is only thirty-seven and one-half cents. Here is the real economy of advertising, and it usually goes hand in hand with a third saving—the lessened unit charge for overhead expenses. With an output of 10,000 articles, each article must bear its share of such expenses as administration, interest on capital, etc. If the output is increased to 20,000, many of these charges will not be proportionately increased, and each article then will carry a smaller charge for the items of general expense.

7. *Evidence of savings.*—These are not mere theoretical savings effected thru advertising. The advertising periodicals are filled with the testimony of manufacturers who have been able to keep down, or even to reduce prices, as a result of advertising, when large increases in the prices of raw materials would otherwise have forced prices up. Ivory soap is as

widely and as expensively advertised as any commodity in general use. Does anyone suppose that its present price, which has remained unchanged for almost half a century, could be maintained if it were not for the large scale production and the economies in marketing effected almost entirely thru its effective advertising?

Good advertising does not really *cost* anything. It must be paid for but it is not an unproductive burden on anyone. To ask "Who pays for the advertising?" is like asking "Who pays the rent of the store?" or "Who pays the salary of the clerk behind the counter?" They are all selling expenses which are absorbed in the business, which are required by competition, and which often permit lower prices to the consumer than would be possible without them. The question "Who pays for the advertising?" might be answered by another question, "Who pays the salary of the agricultural expert who shows a farmer how to double his corn crop without additional expenditure of anything except intelligence?" Good advertising is no more a burden to a manufacturer and his customers than the salary of the expert is a burden to the farmer and his customers.

8. *Advertising and other marketing methods.*—In order to show the effect of competitive marketing methods on prices, we have confined our attention to advertising, because advertising is the activity that is most attacked and because advertising readily serves to illustrate the principles. It should be re-

membered, however, that personal salesmanship does exactly the same thing as advertising except in a different way and frequently on a smaller scale. If a manufacturer sends out traveling salesmen it is because he believes that thereby he can make the maximum sales at the least selling cost. Often, if he did not use salesmen, he could not sell or make his goods at all. If the owner of a retail store hires salespeople to help him behind the counter, or to take his place there, it is because by doing so he can make more sales without proportionate increase in selling expense. Increased sales, whether they come thru advertising or personal salesmanship, usually result in keeping down consumer prices on any article to which effective advertising or personal salesmanship is applied.

9. *General criticism of competitive selling.*—In the preceding paragraphs arguments have been presented to prove that neither advertising, nor any other kind of intensive selling activity, necessarily or usually makes the price of any individual article higher than it would be, if the article were not subjected to the strenuous sales measures that competitive business demands. There is, however, another kind of charge against competitive selling, and like the one already considered, it is usually leveled at advertising rather than at personal salesmanship, probably because advertising is spectacular in its methods and touches more people than personal salesmanship.

This second charge has three phases: ***First***, it is charged that advertising, as well as all other forms of competitive selling, is an economic waste—it is a tax on society. It is contended that when an advertising manufacturer greatly increases his sales in a competitive market, one of two things happens: either the total purchases of the kind of product he makes are increased (which may or may not be a good thing for society), or he is taking business from a competitor, who, with declining and perhaps disappearing sales, finds himself ultimately with a factory and equipment on his hands that represent social waste. *Second,* it is charged that, altho an individual article does not have its price increased just because it is advertised, when two or ten or a hundred competing articles are in the field and when they are all pushed by strongly competitive advertising and salesmanship, then the cost of selling each one is necessarily more than it would be if only one article were on the market; accordingly the prices of all must be raised. *Finally,* it is charged that competitive selling, and advertising in particular, is bad for society as a whole because it multiplies the selling appeals in such an alluring way that people buy more things than they need or can afford; extravagant living, therefore, is encouraged, and the already high costs of living are boosted still higher.

10. *Limitation of the charges.*—It has been said that these charges are brought against all kinds of competitive selling. Sometimes this is the case; more often, however, they are brought against advertising alone, for reasons already presented. Those who

bring them, in other words, are usually unconscious of the fact that their criticism is an indictment of the competitive system of industry; they think that they are condemning only one of its methods.

It is necessary for the defenders of the present business system to insist, over and over again, that neither advertising nor personal salesmanship can properly be singled out for attack; all honest methods of competition must stand or fall together. If the national advertising of a manufacturer is an economic waste, then the local advertising of a store is a similar waste. No one can condemn national advertising on principle unless he also condemns such things as putting goods in the window of a store to attract trade; making a store attractive so that customers will feel like staying and buying; the neat dress of the saleswomen that is supposed to add to the pleasure of purchasing; the practiced courtesy of the salesman that makes the customer want to trade at one store instead of at another; and the hundreds of other seemingly innocuous things that are done to build up competitive business. If it is ethically and economically wrong for a manufacturer to tell his story in print to a thousand readers, it is equally wrong for a retail salesman who has sold a collar to a customer, to remark: "These new cravats that tie into a tight bow are being worn generally with that shape of collar."

The only difference between the thousand things that the retailer legitimately does to attract trade, and the advertising that the manufacturer causes to be sent all over the country, is one of degree. One does on a small scale what the other does on a large scale. If it is right for the retailer to get you to trade with him instead of with a rival dealer, it is right for the manufacturer, by telling his story where you can see it, to try to get you to purchase his goods instead of those of another manufacturer. There is no difference in principle. If competition as a principle is right, then any method of competition that is honest and in good taste is right, regardless of whether it operates on a large scale or on a small scale; and one such method cannot logically be criticized without criticizing every other competitive method of selling.

11. *Is competition wrong?*—But the critics of present methods sometimes are willing to go to the extreme of denying the right to compete; they would deny to a man the right to enter business if he wanted to. This is the argument of socialism. Governmental monopoly in each line of business, we are told, is far better than to permit private individuals to engage in business in accordance with their own inclinations. The subject is too large a one for discussion here. We can only suggest some of the things that competition does for society, and leave to the individual business man to determine for himself, whether or not, when he competes honestly for business in the various ways that modern progress has put at his disposal, he is engaging in an illegitimate, uneconomic, unjustifiable activity.

12. *What competition does.*—Would the world really be better if the field of business were not open to anyone who cared to enter it? Those who believe in competition and in letting each man do the work that he wants to do, say that the present method of doing business is necessary if people are to continue to use their brains to produce better, cheaper, more convenient goods of all kinds. Inventive genius, in other words, is best fostered by holding out to the inventor the opportunity to get such reward as he can induce the public to give him in the open market.

Furthermore, after an invention is perfected, if it were not for competition and the necessity of adopting intensive selling measures so that the inventor could get his financial reward, the public might be very slow in finding out about the new product. This is, perhaps, one of the greatest services of competition. A man who has something to sell that he thinks will satisfy a want of society—something that will make life easier or happier or better—cannot hide his goods if he wants to get his reward. He must tell the public about them. Competitive selling, then, is an educator; it carries the message of new goods, new methods, new conveniences, new luxuries, to the farthermost points of the earth, by the printed word, by display, and by word of mouth of the personal business representatives who have done so much for business and for civilization; and it does all this in a quicker, more economical, and more effective way, probably, than it could be done under any other system of industry than the one under which we are now living.

13. *Conclusion.*—When all is said and done, the fact remains that we are operating under the competitive system of industry—a system that permits a man to select his own business—a system that does not by law limit the number of people who engage in any given kind of industry, and which must, therefore, permit anyone in any business to do anything that is honest and in good taste to induce people to buy his goods. Even if we admit, for the sake of argument, that intense competition does raise prices and increase extravagance of expenditure, what are we going to do about it? Shall any one manufacturer or any one dealer cease to go after business by any honest means at his disposal—shall he discontinue his advertising, draw in his salesmen, tear down his sign, board up his windows, and, with his goods carefully out of sight for fear they might encourage buying, do business with intending customers thru a hole in the wall?

Nothing so foolish as this is called for, either by ethics or by economics. The fact that the competitive system continues, proves that most people want it to continue, and, if they want competition, they must permit the methods of competition that will get business. Dishonest methods must go, and so also must methods that are against public morals and public taste. The effective, honest and intelligent methods of competition, however, must remain; and no manufacturer or dealer who uses the great tools of advertising, and of personal salesmanship in the thousands of ways that good sense, good taste and good business suggest, with an honest desire to deal fairly with competitors and with the public, need apologize for his activities, or fear that he is doing anything save that which is for the best interests of society.

REVIEW

Does intensive salesmanship increase the price of the article sold? Why?

Does advertising increase the price of the article advertised? Why?

Is intensive selling effort of all sorts a tax on society?

Is the multiplication of selling appeals a good or a bad thing for the consuming public?

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